



TRANSPARENCY  
INTERNATIONAL

Delna

SABIEDRĪBA PAR ATKLĀTĪBU



## **Integrity in Business: A Nordic - Baltic Dialogue**



# Integrity in Business: A Nordic – Baltic Dialogue

**November 21 – 22, 2005**

**Riga, Latvia**

Editor in chief: Zanda Garanča  
Literary editor (Latvian and English): Kārlis Streips  
Proofreader (Latvian): Madara Mieriņa  
Translator: Kārlis Streips  
Photographer: Agnese Zeltiņa  
Cover and layout design: Modris Brasliņš  
Contributors: Inese Voika, Līga Timša and Alexander von Freeden

The conference “Integrity in Business: A Nordic – Baltic Dialogue” was held in cooperation with *Transparency International* national chapters from Baltic and Nordic countries and Secretariat and the German software producer *SAP*. This publication was compiled by *Transparency International Latvia* with a financial support of *SAP*.



**TRANSPARENCY  
INTERNATIONAL**



# Content

INTRODUCTION .....	3
OPENING STATEMENTS .....	5
Ms. Inese Voika, Mr. Miklos Marschall, Ms. Antra Zālite	
TI TOOLS FOR ANTI-CORRUPTION IN BUSINESS ENVIRONMENT .....	8
TI Business Principles for Countering Bribery	
Mr. Jermyn Brooks .....	8
Integrity Pact – a Tool for Business to Cooperate in Combating Corruption	
Roberts Putnis .....	12
BUSINESS PRINCIPLES IN PRACTICE IN BALTIC COMPANIES .....	16
Three Weapons in a Fight against Corruption in <i>Latio Real Estate</i>	
Mr. Edgars Šins .....	16
Unwritten Code of Conduct in <i>Mažeikiu nafta</i>	
Mr. Valdas Laurinavičius .....	18
BUSINESS PRINCIPLES IN PRACTICE IN NORDIC COUNTRIES .....	20
Post – <i>Enron</i> life in <i>Ernst&amp;Young</i>	
Mr. Monty Åkesson .....	20
The Integrity Programme – the Guarantee for Reliability in <i>Norsk Hydro</i>	
Mr. Arvid Halvorsen .....	23
The Business of Transparency: <i>SAP</i>	
Ms. Gabriele Hartmann .....	26
<i>Ersccsson</i> : No Trust, No Profit!	
Mr. Stefan Johansson .....	29
Questions and answers .....	30
TOOLS FOR MORE TRANSPARENCY IN BUSINESS .....	34
Ms. Baiba Rubess	
Searching for Tools for More Honest Business	
Mr. Jermyn Brooks .....	35
Business Ethics Standarts from a Comparative Perspective	
<i>Group: Agents and business relationship</i> .....	37
Reports and discussion .....	43
Business Ethics: Fashion Statement or Profitable Investment?	
Dr. Atis Zakatistovs .....	47
Questions and answers .....	49
INTEGRITY PACT IN PRACTICE IN LATVIA (reception) .....	51
Mr. Roberts Putnis	
New “Three Brothers” - Pioneers of Integrity Pacts in Latvia	
Ms. Helēna Demakova .....	52
COALITION TO PROMOTE BUSINESS INTEGRITY .....	54
Mr. Rytis Jouzapavičius	
Political Will: Key Element in Reducing Corruption	
Mr. Ken Marti – Vaher .....	55
Independent Anti - corruption Agencies Work in Countering Corruption in Private Sector	
Mr. Alvis Vilks .....	58
Active Business Environment in Support of State Anti – corruption Efforts	
Ms. Ruta Skyrienė .....	60
Panel Discussion .....	62
LIST OF PARTICIPANTS .....	68
TI BUSINESS PRINCIPLES FOR COUNTERING BRIBERY .....	70

# Introduction

In an ideal world, people would behave ethically just because that is the right thing to do. In the real world, however, elements of ethical behaviour cannot be understood all that easily. There is an enormous gap between the way in which businesspeople take decisions and act on an everyday basis on the one hand, and the way in which they should do these things on the other hand. What is more, there are usually no practical recommendations as to how this gap could be narrowed. Claims that the behaviour of businesspeople are not in line with various moral criteria or generalised moral concepts – these cannot help in influencing the taking of everyday decisions. As a result, most businesspeople in Latvia are convinced that ethics in business are an idealistic goal, one with respect to which they are not prepared to donate their time.

This is a damaging and false perception. It is damaging because it allows businesspeople to avoid any moral assessment of their own actions. The absence of such judgements creates a situation in which partners are purposefully defrauded, and the harsh use of such processes become a universally accepted component of everyday operations. The perception is false because a lack of knowledge means that the role and importance of business ethics are misunderstood. Business ethics do not involve the need for individuals to sacrifice themselves at important moments. Instead, they refer to the emergence of mutual trust on an everyday basis.

The practical application of business ethics cannot be based exclusively on a definition of moral standards, because moral ideals and beliefs are not the decisive motivational factors which are behind the taking of everyday decisions. Concerns about company development, employees, repayment of loans, location of new markets, the personal welfare and benefits of owners and bosses – these and other factors are of key importance in terms of the motivations which lead to the taking of everyday decisions. Before one can integrate business ethics into everyday procedures, one must first analyse and balance out the motivations which exist at various levels. What are the practical benefits of ethics in terms of business development? The practical application of ethics can be found when analysing, establishing and balancing the motivational factors which are considered by people who are involved in business. The establishment of an environment of meaningful factors in the taking of decisions can be called the creation of a

reputation or of mutual trust. Mutual trust is the central concept in business ethics.

Problems in business occur when there is excessive or insufficient trust between partners. If there is too much trust, then partners have a reason and a chance to take advantage of this trust at the expense of the businessperson's interests. If there is too little trust, business development is hindered. Co-operation that is of mutual advantage is simply not begun.

It is important to understand that there is no specific and precise boundary between too much trust and too little trust. It is impossible to define such a boundary, because the distribution of information in negotiations must always be asymmetrical. During negotiations parties always know more about their goals and capacities than their partners in the negotiations do. For partners, the disclosure of mutually important information is a part of negotiations about the price of a specific product or service, or about the distribution of obligations, norms and benefits. Ethical problems occur in business when the asymmetry of information is used to mislead or to take advantage of partners.

Many Latvian businesspeople think that purposeful misleading of partners in business negotiations and the taking advantage of those people is an inviolable component of entrepreneurship. Most are convinced that the cornerstone for successful business is the ability to protect oneself against fraud while taking maximum advantage of opportunities that occur when partners make mistakes or when the partners are purposefully misled. In this context, the issue of trust is very controversial. Businesspeople think that they should not be forced to undertake additional risks or expenditures to respect the interests and moral rights of their partners as long as they are not convinced that the partners will do the same with respect to them. Most businessmen insist that their strategy in the taking of decisions is the following: "Trust the other person carefully until the point where I am misled, and then don't trust the other person at all."

There are various reasons for this belief. First of all, the experience of businesspeople has shown that the *strategy of minimal trust* is the *most advantageous* strategy in an environment in which the interests of businesspeople are not defended by laws, traditions or precedents. Losses which occur as a result of potentially advantageous but cancelled transactions are lesser than the losses which occur when an "untested" partner is trusted. The

difference between a "tested" and "untested" partner, of course, is difficult to define, and this creates additional problems in terms of business growth.

Second, *businesspeople have a poor reputation in society*. There are both historical and economic reasons for this. On the one hand, the collective memories of the public still are very much influenced by the ideologically defined concept of "exploitation" – a concept which denounces business activities as such. On the other hand, many people find it emotionally difficult to accept an uneven distribution of property and capital. This attitude is seen at the everyday, the political and the administrative level. Accordingly, business is artificially isolated from other events in public life (there is the phrase "he has gone off into business," for instance). This artificial isolation, in turn, promotes the view that businesspeople are allowed to do things that others would be denounced for doing – defrauding and taking advantage of others.

Third, *businesspeople do not have influence* that would allow them to affect administrative decisions which seek to promote specific sectors and business as such. They are convinced that over the last few years, opportunists have found it possible to affect administrative decisions to gain private benefits. In the context of this analysis, we are not interested in facts, we are instead interested in the convictions which determine the way in which businesspeople act. This conviction creates desperation and faith in the belief that nothing is dependent upon the things which businesspeople do. Accordingly, an ethical evaluation of activities is considered to be a farce. The belief that others are improving their lives at the expense of businesspeople motivates them to take decisions which they would never have taken otherwise – even if they understand the importance of ethical issues.

Finally, *the contributions of many businesspeople are often not recognised*. Businesspeople are convinced that institutions of governance consider them to be frauds irrespective of what they do. Punitive sanctions are insufficiently flexible to ensure that punishments are in line with the violation that has been committed. This means that businessmen lack motivational factors that would encourage them to seek alternative activities and decision-making mechanisms.

Undeniably, this is a simplified explanation of causes. It helps us to have a clearer sense of the most important factors which, on an everyday basis, keep businesspeople from undertaking

responsibility for what they do. The description is also simplified because the business environment is not homogeneous. The question of what a Latvian businessperson is cannot be easily answered. On the one hand, business sometimes involves political activities at the national and local government level. On the other hand, there is often no separation between the interests and obligations of company owners and company managers. Conflicts of interest are often encountered in Latvian business.

In this situation, it is important to look for simplified logic which can be used to find guidelines related to the way in which business ethics can be integrated into the taking of everyday decisions. In a situation in which the obligations and duties of businesspeople cannot be clearly defined, it is necessary to find an appropriate classification which would demonstrate the application of business ethics.

This classification could be created not in a description of the duties and activities of businesspeople, but rather in terms of differences in the style which they apply to the taking of decision. Here we can speak, first of all, about "opportunists" who think only about their own interests when taking decisions. We can also speak of "idealists" who always make use of their own moral standards in taking decisions, even if this causes them losses. Third, there are "pragmatists" who analyse each situation individually before taking decisions. Finally, there are the "desperate people" – those who take decisions to get to the next step in decision making.

There are no quantitative data about the extent to which the strategies of businesspeople are common in the business environment. These data are necessary so that they can be used in evaluating strategies that are aimed at improving business ethics.

Which factors motivate the taking of decisions in Latvia's business environment and which promote the misleading and taking advantage of partners?

First of all, there is *enormous asymmetry in information*. The parties in negotiations often do not have the same information about issues that are of importance to both sides. The party in negotiation which has more extensive and more valid information about important issues can easily use that information to mislead the partner.

Second, *it is hard and expensive to check information*. There is a lack of publicly available databases in which guarantees and promises could be checked. The quality of products and services and the maintenance of co-operation are often based on nothing more than blind faith. It is hard to test the trustworthiness of partners, because the market of independent experts and support personnel is inadequately developed.

Third, *it is hard to test the motivations of one's partners*. Negotiation styles in Latvia are often insufficiently concrete to make it possible to check claims that are made. The proportion of non-specific and generalised claims in negotiations ensures that the claims can be interpreted in various ways, and that creates fertile ground for the purposeful misleading of a partner.

Fourth, *it is expensive to recover losses*. A loss of reputation is not a sufficiently motivating force to keep people from misleading their partners. In order to recover losses through legal procedures, one must spend quite a bit of money.

Fifth, *information about a partner's reputation is difficult to access and hard to trust*. In most cases, networks of mutual trust are informal. Associations of businesspeople and sectors often serve only a representational function, and sometimes they are used as a mechanism for internal competition.

Sixth, *the business environment is unstable*. It is hard to achieve continuous agreements under similar circumstances. Conditions change all the time, and precedents, accordingly are of little effect.

In such an environment, it is hard to forecast business risks, and that reduces the likelihood of mutual trust. Businesspeople who engage in negotiations dare not to take responsibility for the decisions which they take, and that means that both sides are in a disadvantageous situation. The buyer does not trust the seller's claims about the quality of goods or services, and on the basis of these suspicions, the buyer is not prepared to pay a higher price. The seller, however, knows about the attitudes of the buyer and knows that a higher price will not be paid even if the goods or services are of a high level of quality, and so the seller offers goods or services of a poorer level of quality. Both parties in the negotiations are in a worse situation than would exist if there were mutual trust in the negotiations. In that case, the buyer would be motivated to pay a higher price for the better-quality goods or services which the seller is motivated to sell.

Additional difficulties emerge if new businesspeople enter the environment. Purposeful misleading and taking advantage of partners is a good strategy in the short term and if relationships are not viewed in the long term. This means that "idealists" are pushed out of the market, and "pragmatists", in defence of their interests, begin to resemble "opportunists" even if they do not trust the situation. These dynamics are damaging in the business environment, because they attract "opportunists" and increase their number – these are people who are uninterested in long term development, quality and the integration of business into society.

In this publication, the discussion is about the business environments of the Baltic States and the Nordic countries, but

in the introduction I have sketched out problems with the world of business ethics in Latvia owns. Latvia's business environment is developing dynamically, and further growth will require mutual trust in the domestic and the foreign market. Introduction of business ethics at this time is hindered by the fact that many businesspeople in Latvia misunderstand the concept and meaning of business ethics.

There are three major views which reflect reasons as to why business ethics are not appropriated in Latvia. First, many businesspeople think that ethics represent an interference of European businesspeople in the Latvian business environment to compete with local businesses dishonestly. It is surprising to see how many Latvian businesspeople believe that their counterparts in Europe are trying to rob Latvia. There must be serious explanatory work to prove that this conspiracy theory is without any foundation. Even more, there must be extensive information and practical examples of how co-operation with European businesspeople is of mutual advantage.

Second, many businesspeople are convinced that issues of business ethics are nothing more or less than issues of public relations. Business ethics are turned into something of an added value in terms of products or services. Businesses then view ethics and codes of ethics as "total lies" which they are willing to bear if it helps them to do business. This view is unacceptable, too, because it has nothing to do with the taking of decisions and does not answer the question of whether it is acceptable on an everyday basis to mislead and to take advantage of one's partners.

Third, many businesspeople are convinced that improved business ethics relate only to the activities of the government in terms of laws that are approved. This keeps businesspeople from making moral judgments about their own behaviour, postponing any thought about these issues until the moment when "the laws are all right" and the time has come to establish mutual trust and respect. This view must be rejected, because causes and consequences are mixed up here. It is very likely that there are problems with legislation specifically because there is a lack of mutual trust among businesspeople and between businesspeople and legislators.

The materials of this conference demonstrate the way in which the enthusiasts who seek to improve the business environment of the Baltic States and the Nordic countries thought about ways of improving business ethics at the end of 2005. I hope that the open nature of the debate will lead other businesspeople to think about a context in which long term development and profits can be ensured.●

**Atis Zakatistovs, Ph. D.**  
**Business ethics expert**



# Opening statements

**Ms. Inese Voika,**  
**board member, Transparency**  
**International Latvia**



Good morning. My name is Inese Voika, and I am a board member of *Transparency International Latvia*. I will be the host of this conference. I would like to welcome all participants, speakers and organisers on behalf of *Transparency International*, along with the journalists who are here this morning. I would first like to ask the journalists not to quote anyone who is present without asking their permission first. We have a professional photographer who will be with us throughout the day for our own purposes. If you do not wish a particular shot to be used, kindly tell her so, but she is working on our behalf.

I would like to make a brief speech of introduction and welcome. We began *Transparency International's* work here in Latvia seven years ago, and I was the organisation's first president. We presented the position of the civil society, seeking to work with the government and to encourage it to work on and to understand issues of corruption. Soon after we began, however, we realised that this world is not built only on two pillars – the civil society and the government. There is a third pillar, which is the business community. It must be involved if we are to have a better and a cleaner world. This understanding has helped us to move forward to a significant degree. Yesterday the organisers of the conference met with representatives of all of the TI chapters that exist in countries around the Baltic Sea. One of them said that companies are coming to TI to seek advice on how to be clean, how to achieve a good reputation, how not to risk the good reputation, and what are the best ways to engage in business with integrity. The Danish representative had this to say: "Yes, this is the situation today, but we would not have imagined 10 years ago that companies would be prepared to talk about corruption and to admit to their problems, to work with them. Now this is everyday life, at least in the Nordic countries."

In the Baltic countries, and particularly in Latvia, I think that we are at the beginning of this road, and we face a different situation in terms of understanding corruption in our societies. In Latvia, people say that corruption exists, but only if it does not involve me. This is what we have learned during our seven years of operations. Someone bribes a traffic policeman after being stopped for speeding, but it is a bribe only if the person is caught. If I am caught, then it is a problem, and I try to resolve it, but it has nothing to do with corruption.

We are trying to promote a different way of thinking, we call on people to be responsible for behaviours which disrupt the way in which citizens and businesses are treated. I very much welcome this unprecedented dialogue with business that is organised by the civil society. I hope to listen and to learn how we can build up on this dialogue, how we can move forward. Business principles and some of the issues that we are prepared to discuss today involve not just doing something in a technically different way, but also understanding that values are changing in terms of how companies are run and how we all understand these things. This is a long-lasting process, and we must begin where we are. I am looking forward to this day, I hope that I will find out where we stand in terms of our understanding and where we can go together.

With that, I would like to hand over the floor to Miklos Marschall, my colleague from the TI secretariat in Berlin. He has been a very good partner in terms of helping us to organise this event and in bringing all of you together. ●

**Mr. Miklos Marschall,**  
**regional director for Europe**  
**and Central Asia, Transparency**  
**International Secretariat**



Thank you very much, Inese, and good morning to you all. It is indeed an honour to be here and, on behalf of the TI secretariat, to welcome all of you here in Riga. I would like to thank the Latvian chapter for putting this meeting together, but I would also like to thank all of the other Nordic and Baltic chapters which participated in organising this event. Last, but not least, I would like to express my thanks to the SAP company, which has been a good corporate partner for us for quite some time. We have worked together, and I hope that this will not be a one-off event. Other forms of partnership must follow.

As you have seen in the programme, this will be a dialogue – a dialogue on the subject of business integrity, involving civil society organisations, businesspeople and government officials from the Nordic and Baltic countries. The structure of this meeting is interesting if you are familiar with the Corruption Perceptions Index which TI issues each year. You will then realise that here in the room there are people from countries which do very well in that index and are very clean – Finland, Sweden, Norway and Denmark. These have been the least corrupt countries as far as our index are concerned. Also here are countries which have not done all that well, the exception perhaps being Estonia, which has a score of 6 out of 10 on the scale – that's a good score. Latvia and Lithuania are not doing as well. There have been improvements, clearly, but the international community still perceives these are countries which have severe problems with corruption. I hope that there will be an interesting dialogue amongst the representatives of these countries. We can certainly learn from the Nordic example in finding out why these countries are perceived to be so clean, we will confront Baltic realities, and I hope that this dialogue will encourage us to deal with these issues, because our ultimate purpose is to generate momentum toward collective action.

I hope that we will be able to use some of TI's business integrity tools, particularly the TI business principles for countering bribery, so as to generate this collective action. Of course, it would be a big mistake to assume that there is a dichotomy here, that we have clean countries on the one hand and corrupt countries on the other. It always takes two to tango, and we would like people from Nordic companies which are present today to explain the everyday way in which they do business, to explore ways in which companies and the private sector can do to curb corruption in this region.

The Baltic countries have another very interesting feature in their development – they all have transition economies. I am a Hungarian, and I am quite familiar with that which is known as the political economy of transition. Transition also involves a sociological component, and I hope that during this two-day debate we will spend some time on the mental conditions which are related to transition.

As Inese pointed out, there is indeed a kind of delegation of culture to the authorities of a country. I hope that one of the outcomes to this meeting will be the realisation that we must all act, that we must not wait for others to act on our behalf. Civil society and private companies should take steps, and I think that this culture of waiting for others to act on behalf of ourselves is something that we must overcome. Ours is a culture of blaming others, particularly the Soviet Union, and perhaps the toughest legacy of Soviet times is this culture of excuses. In Soviet times we had excuses for everything, for non-performance – the bloody system was to blame you see. I think that this easy excuse is gone now, and now it is our challenge to find ways of using our own power and influence to change the system. No one else will do it for us, it is our own responsibility, and I think that this is an issue which everyone in transition countries must face.

I think that all of you know a great deal about TI, so I will not talk about it as such, but there is one thing that I would like to mention to you – that is our work with the private sector. It used to be that there were lots of debates within TI as to whether we should work in that sector. The debate is now over, and I think that if one wants to treat corruption seriously, then there is no way to do that without the partnership of the private sector. TI has increasingly partnered with many enlightened and leading corporations in the joint fight against corruption. I hope, as I said at the beginning, that this meeting will trigger new directions. I hope that we can use the synergy with many of our initiatives, including the Global Compact initiative. TI has always been all about coalition building, and I hope that this meeting will be an important step toward the building up of a permanent coalition.

We are excited to be here in this country, which is fascinating in terms of the critical phase of transition which it is undergoing at this time. I hope that we will hear a great deal from our hosts about major current issues such as privatisation and massive projects. We are very proud of the fact that we have a very good and prominent chapter in Latvia. It is visible here in this country and abroad. I think that good conditions are in place for a fine and meaningful two-day debate. I am particularly delighted to see so many businesspeople participating in this meeting, and that is a good indication that this principle of coalition building is valid. I thank you for participating, and I look forward to two very useful and meaningful days of work. Thank you very much.●

**Ms. Antra Zālīte,**  
**representative in the Baltic**  
**countries, SAP**



Good morning everyone. I am very pleased to see some of our customers and old friends here, as well as many members of Baltic society and colleagues from the Nordic countries. I'm a bit bemused about having to say a few words of introduction here, because SAP doesn't really have much of a presence in Latvia, although major corporate initiatives sometimes happen here. I would like to thank Gabriele Hartmann and my colleagues from SAP Corporate to help us to produce this event together with TI, and I believe that this co-operation will be fruitful in terms of bringing benefits to the Baltic societies and helping us to move more quickly toward better, more transparent, more thoughtful and more idealistic societies.

I have been working for SAP as a partner company representative for nearly two years now. Before I made the quiet and difficult choice to join SAP, I had to decide on what encouraged me as an individual to choose this employer instead of any other. The answer proved to be very simple – it was the values which this company represents. They match my internal values. I think that this is the best way to make decisions for any of us. I am absolutely certain that my decision has paid off, because these are principles which I would really like to see represented here in Latvia, even if that is sometimes very, very difficult.

I've been working in the Baltic countries for seven or eight years now, and all of our societies – perhaps less so in Estonia than in the others – values have been a bit crippled, and we must admit to this. As Miklos Marschall mentioned, there can always be excuses for everything. Changes begin with choices that are made by each and every individual, and SAP has really helped other companies to implement clean, transparent and very straightforward business processes which are based on best practices that are imbedded in our software. This affects not only the corporate principles and corporate governance principles of the company, but also the value that is created for shareholders all around the world. This is something which can really help in building up our future.

If I look at the local perspective, then I can tell another story which has become a part of SAP folklore, even though it is just a few years old. Someone who was perhaps thinking of becoming a SAP customer or some other company's client paid a reference visit to an existing SAP customer and had this to ask: "We understand that everything is so well-organised and well-defined. You can see whatever you want to see in your system, but you know that it isn't that easy to conduct business in our society, it isn't easy to make everything so clean and transparent, to report everything, to account for all kinds of expenses. Is it possible to run the SAP system so as to differentiate between real accounting and the 'black' accounting system?"

I loved what our customer had to say in response, it was something of a lighthouse in terms of our approach. He said: "Yes, but then you will have to run two SAP systems, which is not really affordable, I would say." Our principle is to embed into our product best practices, the principles of good governance, and the principle of complying with all kinds of regulations, irrespective of whether you are working in finance or in manufacturing. We think about regulations which have to do with environmental and health and safety issues all over the world. This is one of the major driving forces in terms of the value which SAP can provide for you. If we think about these driving forces, then we must also say that each of us must seek to build up a better society for tomorrow. If we start with ourselves, with our companies and with the organisations for which we work, then I believe that we can ensure a much better life for everyone in the very near future. I hope that this meeting will yield up issues, good thoughts, some insights and some motivation to help us to make life better. That is what I really wish in terms of these two days. Thank you. ●



# TI Tools for Anti-corruption in Business Environment

## The TI Business Principles for Countering Bribery

**Mr. Jermyn Brooks,**  
**board member and chairperson**  
**of the Steering Committee**  
**of the Working Group on**  
**Business Principles,**  
**Transparency International**



Good morning, everyone. First of all, thank you very much for inviting me to participate here. I always like the opportunity to reach as many businesspeople as possible. Someone asked me today where we have talked about business principles so far, and I had to think about every place from Norway to South Africa, from Colombia in South America to South Korea. I think that we have covered the world, but there are many important countries, including Latvia, where we have not yet had an opportunity to speak.

Second, it is fantastic to see so many of you here, and I am sure that this can, at least to a large degree, be attributed to the hard work that *TI Latvia* has done. Congratulations to them, and congratulations to the very professional documents that we have just put together. My thanks, also, to *SAP*. We work with *SAP* quite a lot in many

countries, and it is wonderful to see how *SAP* is supporting this event and including the Latvian operation in this occasion.

What I would like to talk about is the same issue which Inese commented upon – if we talk about corruption, it is not enough to look just to the public sector and to complain about the behaviour of governments. Bribery and many corrupt actions require two players, and it very often involved interplay between the public and the private sector. We are really looking, therefore, at what we at TI call the supply side of the problem, because there is always someone willing to pay, whether someone on the other side is demanding payment, or perhaps is not even demanding it, but is willing to accept it when the payment comes from the private sector. What we must consider is the response from the private sector to this problem of bribery and corruption.

The first point that I'd like to cover is the widespread social situation in which business finds itself. People like Inese come from the fraternity of journalists, and then there are politicians. If you look at international popularity surveys with respect to professions those two always are at the bottom of the list – journalism and politicians. The bad news for businesspeople is that they have joined those two professions at the bottom of the list since about 2000, and it is not unsurprising that this coincides with a large number of scandals. It is not just a North American economic prerogative to misbehave in the business world. We have plenty of examples in Europe. We have plenty of examples in Australia, Singapore, Korea and so on. This is an international phenomenon, and the result has been a reduction in the level of trust in the integrity of businesspeople. This is a huge issue with which we must deal, and it is a big problem whether it represents a loss of infrastructure or of trust. I will repeat what Miklos Marschall had to say about transition economies, with which you are much more familiar than I am.

What has also happened is that there is an increasing focus on reputation issues. I

think that a good example of this was what happened to *Statoil* when they disclosed an arrangement with an Iranian agent. The company took action, the CEO departed, but when the story broke, the company's share price fell by 20%. Reputation, thus, has become incredibly important in capital markets. The good news in this story is that because *Statoil* took the steps that it did and included in its public image the high standards which it had always sought to follow, the share price recovered within a month or so to where it had been before the scandal broke. That is not the case, of course, with many other companies which have very different types of discipline. They have to pay the price on the capital markets.

I'd like to touch briefly on what is happening in three areas. First, changes in laws and the legal framework. Second, what we call corporate governance. And third, a rather loose area – corporations with responsibility concerning the ethical concepts of integrity and transparency.

First there is the legal framework. I won't spend much time on this, we'll have an opportunity to talk about this in a bit more detail this afternoon and also to break up into groups, but since 1999 we have had the OECD anti-bribery convention, which criminalizes the payment of bribes by OECD countries. Another six countries have signed up to the convention voluntarily. The convention criminalizes the payment of bribes to foreign public officials. If I am a German company or German national and pay a bribe, let us say, in an African country, it doesn't matter which one, then I can be called before the courts of Germany for paying that bribe abroad. This is a new thing, and all of the signatory countries to the OECD convention have now amended national laws to criminalize foreign bribery. The situation is so new that many countries have not yet woken up. It will take time and you can be sure that organisations such as TI will continue to point their finger at countries which are less than eager to accept the importance of this convention in terms of bribery-related

corruption. We'll come back later to what has been happening in a number of cases.

In the United States, directly as a result of *Enron* and other, similar scandals, there was a need for a very quick political reaction. The Sarbanes-Oxley Act<sup>1</sup> was passed. The Republican Party didn't like it at all, but because there was such a scandal, they had to react. Senator Sarbanes is a Democrat, and Representative Oxley is a Republican. In the United States, you always have to accept participation by both parties. Oxley knew nothing about the matter, but Senator Sarbanes had been working on corporate reform projects for a long time. Basically, he just took his project and put it into effect. That had quite a lot of impact, and you may have heard about the corporate world growling about the cost of complying with the Sarbanes-Oxley Act, or SOX, as it is often called.

In the European Union and Council of Europe, the latter obviously covers all European countries, including those that are members of the EU, and there are very good frameworks in the form of formal recommendations. Sometimes these have been adopted in national legal codes, and they cover bribery issues and criminal

Corporate governance is all about the relationship between the management of a company, its owners (at public companies or large companies these are not always one and the same) and all other stakeholders – employees, the government, organisations such as TI, and civil society organisations. The issue is the relationship between management and all of these various people to whom management is, in various degrees, accountable. How do they cope with that, what are their responsibilities? That is the debate about corporate governance. Whenever there are scandals, there is a huge debate about the corporate governance rules in major countries with major capital markets, people ask whether these corporate governance rules are working properly. Since the scandals of 2000, there has been an international debate on this – here are just a few examples. France, Germany and the UK have all set up commissions or investigating committees to look at this, and they have all come up with more or less demanding regulations for companies which operate out of those countries.

The EU itself has looked at this, as, indeed, has the OECD with its

behind the issue of corporate social responsibility – what obligations do I have toward the many stakeholders in the many societies (in the case of international companies) in which I operate?

The United Nations Global Compact was set up to try to bring businesses into the process of achieving the UN's Millennium Development Goals. This is an idea which Kofi Annan had in 1999, and it was announced formally in 2000 along with the Millennium Development Goals and the Global Compact between businesses and the UN. The aim was to get them to support the achievement of the Millennium Development Goals.

It was quite recently, in the summer of 2004, that the original nine principles in the Global Compact were supplemented with a 10<sup>th</sup> – the principle of anti-corruption. There are three environmental principles, three concerning employment standards, three in the area of human rights, and one which deals with the anti-corruption principle. Ten is a nice, round number, and so now we have 10 principles in the UN's Global Compact.

The other thing that's been happening is that companies have been under increasing pressure to say publicly what they are doing. We mean it when we speak about corporate reporting, and I would suggest that I don't go into this in any greater detail now.

Another movement which is taking place is still quite small, but it is becoming more and more important that year. This is the fact that a group of investors – individuals like all of us, along with pension funds and other institutional investors – have become increasingly worried about what companies stand for and where their investments are going. They understand their responsibility if, for instance, a very big pension fund has hundreds of millions of dollars to invest. The reputation of the pension fund also depends on the companies in which it invests. Investors are also interested in doing the right thing, they're interested in proper and effective investments. What is known as the SRI movement – the Social Responsibility Investment movement – has taken off. The amount of investments in companies which are seen as socially responsible and the number of international funds which have been set up to invest in such companies – both are growing faster than the growth in internal capital markets. The numbers remain quite low – this applies only to 4% or so of international and worldwide investment. The figure is on the rise, however, and companies want to take into account the institutions that have been set up to measure the social responsibility of

**A company is granted the right to operate by parliaments in various countries. What obligations does a company have vis-à-vis society? That is the question which lies behind the issue of corporate social responsibility.**

prosecution of cases of bribery and corruption.

Finally, I would just like to mention the United Nations which, surprisingly, by 2003 got around to a green and anti-corruption convention. The convention will be effective in any country which ratifies this convention. This applies not just to the member states of the EU, the OECD or the Council of Europe, it is global. Any country which signs up to this is required, once having ratified it, to transpose the details of the convention into its national laws. This goes way beyond any other conventions or acts in this particular area. Again, we don't have time to go into this in any detail, but in a timeframe of five to 10 years, we anticipate that the convention will become very important indeed.

multinational enterprise guidelines. In the US, we have heard about the Sarbanes-Oxley Act, but there are also organisations such as conference boards or chambers of commerce which have been looking at and debating the issue of corporate governance.

This overlaps into the next area, which is corporate social responsibility. If a company is granted the right to operate by parliaments in various countries, this usually confers certain privileges, and one of the most important ones is that which we call limited liability. If everything goes wrong, in other words, the company can declare bankruptcy and walk away from much of its debt. These days there is a price to pay. In most countries, companies are required to public audited financial statements and there are many other obligations which they face. In the broader context, this has developed into what is often called the license to operate as a business. What obligations do I have vis-à-vis society? That is the question which lies

<sup>1</sup> Sarbanes-Oxley Act is named after Senator Paul Sarbanes and the Representative of the House Michael G. Oxley

companies. This places pressure on the companies to take part in this.

We often face criticism of this type: "Why are you wasting time in talking to companies about codes in bribery when actually you should be thinking about the lack of laws in this area, about how to make sure that laws are enforced." The problem is that we know that many countries have quite good laws, not only in this, but also in many other areas. The problem is actually not the quality of the laws, it is the lack of law enforcement and follow-up. A classic case is the country to our East. After the Berlin Wall came down, lots of the world's best lawyers rushed into

some form or another in the legal framework of most countries. What we are actually trying to do, however, is to get companies to provide leadership voluntarily and with full motivation, and for staff and employees to observe good practice. That is why we believe that the voluntary codes are so important.

There is a gap. No individual country can pass international laws. The UN tries to do so. The UN is usually criticised. The Global Compact which I just mentioned is just one example of the UN trying to fill in an international gap. If a company accepts the code in terms of the principles of bribery in other countries, then it commits

because we wanted to make sure that the results of our work would be recognised by business as being applicable to it. We had members from the civil society and trade unions, academics from universities. We brought in business associations such as the Association of Worldwide Engineers, we had Conference Board from the United States which is sort of a lobby group but is slightly academic and regularly publishes economic reports. This was a varied range of interested parties so as to make sure that our results would represent not just a broad range of members, but also a large degree of acceptance.

I think that we have achieved this. I was at a conference where a trade union leader was speaking, and he said this: "We are very happy about the Business Principles. This is the one code which fully incorporates everything which we, the trade union movement, have wanted." This particular stakeholder was very happy, and it is also true that the principles are fully accepted by business leaders, who are not always the best of friends with union leaders. We went through a very comprehensive consultation process. Perhaps the most important thing is that we took the first edition of the Business Principles out into the field. We did a field test in India, with a large Indian company. We also tested the principles in Azerbaijan. I believe that back then, in 2002, the TI Corruption Perception Index had something like 93 countries, and Azerbaijan was 88<sup>th</sup> on the list, it was one of the most corrupt companies. We wanted to see how an old, international company – in this case, *British Petroleum* – was coping with its pronounced and very high standards in a very corrupt country. The third country which we took on was Switzerland. You may be thinking, why waste time in Switzerland, which is not a very corrupt country? We wanted to test a medium-sized company which operated out of Switzerland but worked in about 100 countries all around the world, with very small subsidiaries in each. There were about three staff members in each subsidiary, and these were basically salespeople. You can imagine what instructions these people received – go and sell as much of our product as possible, these are your targets, report back to headquarters when you have achieved them. In other words, we wanted to see whether the parent company, which said that it had high standards of integrity, was communicating them to staff who were under a lot of pressure to achieve their sales targets. We collected lots of



### **The TI Business Principles for Countering Bribery:**

- **The enterprise shall prohibit bribery in any form whether direct or indirect;**
- **The enterprise shall commit to implementation of a Programme to counter bribery.**

Moscow and wrote wonderful laws for that country. Not much changed because the laws were never put into effect.

The fact is that laws never work very well in any country unless at least 95% of citizens, companies and all other entities which are supposed to comply with the law do so voluntarily. Law enforcement works only if you are dealing with a very small minority which breaks the law. What we say in the area of business is that the role of voluntary codes is to make sure that the corporation does, in fact, comply with good standards, and those good standards are usually incorporated in

itself to obey the rules not just at home, but also in every country in which it operates. This is a contribution toward improved global standards, and this can help in terms of levelling the playing field in a good sense across different national borders.

The TI Business Principles for Countering Bribery (the Business Principles) is a code which seeks to help companies to deal with bribery, which represents around 90% of all corruption issues. We began in 2000. We set up an international steering committee, mostly made up of business representatives,

information about the tests in India and Azerbaijan and about this particular situation in Switzerland. The information improved the quality of our Business Principles, and we used it to produce the guidance document which we will discuss later this afternoon.

What are the Business Principles? We are talking about an anti-bribery framework. This is good business practice. It is not absolutely the best. There are large and sophisticated countries which have incredibly sophisticated standards in this area, and we won't try to frighten off companies by telling them that ours is the only way to do this. We are trying to propose some good, basic business practices. Businesses need to manage operating risks anytime and anywhere.

We also set ourselves a task which was perhaps impossible – to draft principles that would apply to companies in any industry and to companies of all sizes. As I said at the beginning, not all areas of corruption are covered, things such as conflicts of interest or providing unfair advantage to your friends. We are talking about bribery, but it is bribery wherever it happens – not just bribery of public officials, but also bribery among companies. I always remind this last sentence to our American friends, who often believe that bribery and corruption are always things which happen somewhere abroad. It is not just a problem which happens abroad, it also happens in your own country and in many other countries where you operate, both internationally and domestically. It is actually a very simple document. It has been translated now into about 20 languages, including Latvian.

There are two very simple principles in the Business Principles. One is a no-tolerance policy vis-à-vis bribery, which is very easy to say. There is a second principle – you must have a detailed policy of how you are going to implement this principle and make it real at your company. We call the development of the programme – what does implementing a no-bribes policy actually mean? It is important, and this was a response to the businesspeople and other stakeholders at our steering committee meetings, because they said to us: "Look, it is not enough just to say that they shall not bribe. You have to deal with quite a number of very difficult problems, and these have to do with business relationships and specific forms of bribery."

The specific forms of bribery to which we refer today are political contributions, philanthropic contributions. The last one is a rather grand word, we usually call them charitable donations. You know –

this is giving money to a local hospital, a sports club, whatever, money that is not used for bribery as such. There are facilitation payments – small payments, sometimes called speed payments, sometimes called green payments. They are bribes, so what do you do about them? Businesspeople tend to tell us not to bother about this, this is a minor problem, these are small amounts, we frankly cannot afford to hold up our business, so we just make the payments and get along with our work.

We in TI believe that in very corrupt countries in particular, this is part of a systemic problem which you have to deal with, and if business does not face up to that challenge, then it is letting down the whole campaign to fight against bribery and corruption. Finally, we refer to gifts, hospitality and expenses – when are they acceptable, and when are they over-the-top, turning into a form of corruption. These are the four areas that we will be talking about this afternoon. We will also speak of the area of business relationships.

What do we mean by business relationships? I will mention them in the order of descending ability to control the relationship. First of all, there are subsidiaries. The normal definition of a subsidiary is a company in which you own at least 50.1% of shares. In other words, you can control the company, because you control its capital. You can insist that your standards be observed. TI and our Business Principles are very clear on this – you cannot argue that it is a separate legal entity for which you have no responsibility. If you control the company, then you must make sure that exactly the same standards apply to it that are in place at the parent company.

It gets more complicated as you go down further. Joint ventures. You may have a controlling interest in a joint venture, but this is unusual. Then it comes down to the question of negotiating with your joint venture partners about the standards of operations which prevail. There are very, very many variations here. There are new joint ventures, there are existing joint ventures into which business enters – there are different challenges in each case.

Third, there are agents. In many countries, and particularly when you are entering a new market for the first time, you use agents. This is perfectly legitimate. The problem is how do you know that the agents are honest? How do you know if they will stick to your standards of business operations even signing them up? In some countries, you are actually required to operate through agents. It is an even greater problem,

because if the country is very corrupt, then the agents are a part of the system. Again – how do you protect yourself and your reputation when working with them? There are many business principles involved in this.

Finally, the most difficult area for business is a new one which applies not just on bribery and corruption. We refer to employment standards and the like – this is what we call the supply chain. Think about the contractors and suppliers which whom you work, think about your customers. What kind of responsibility do you have for the standards which the members of the supply chain observe? If you have a big business, you can influence the standards up and down the supply chain.

I can mention some very interesting examples. About 10 years I was in Malaysia for a meeting which was hosted by a Malaysian oil company. We were told that this company insists that all of its suppliers follow its ethical standards. This was a very big company, dominant in the Malaysian economy and it could impact on that particular economy to a very great degree by insisting that all suppliers follow the ethical standards which the company was following. Those principles were very close to our Business Principles. In this case the issue had nothing to do with bribery and corruption, it was all about employment standards. Companies such as the sports manufacturer *Nike* have suddenly encountered consumers in the United States and Europe who are saying that they will not buy the companies' products any more, because they are employing people under disgraceful conditions in Asia. These companies have suddenly become much more interested in what is going on in their supply chain.

The same kind of thinking came about when *BP* went to Azerbaijan, it had about 1,000 people there. Suppliers who were building the rigs had 5,000 people in the country, and if the 5,000 people behaved badly, that would obviously affect the reputation which *BP* has in that country. This kind of thinking has just begun to appear, and it can be quite difficult for companies to quote with.

The Business Principles are ready. Many companies have said to us, "OK, we've read the document. Now what? We need help." The Business Principle Tools are here to provide that help.

We usually end these kinds of presentations by appealing to companies to take this issue very seriously, to debate it. Again, congratulations to TI for allowing us to bring this whole area to your attention. This is one tool, and I think that in the follow-up we'll be talking about another. Thank you very much. ●



# Integrity Pact – a Tool for Business to Cooperate in Combating Corruption

**Mr. Roberts Putnis,**  
**chairperson of board,**  
**Transparency International**  
**Latvia**



Good morning to all of you. I welcome to Riga all guests from other countries, as well as participants from Latvia. This is a morning during which everyone tries to prove that miracles cannot occur, but miracles do occur. I will offer a Latvian viewpoint, a look at what *TI Latvia* is doing in terms of working with the government and with political will to change the business environment in Latvia. This is an Integrity Pact which is in line with TI practice, and we have concluded it here in Latvia with the Ministry of Culture and the state agency *The New Three Brothers*. The project relates to three major building projects in the area of culture in Latvia, and they will be implemented over the next few years. These are massive projects in Latvian terms, in a political sense we can say that these are signs of the century in the area of construction. The project applies to a new building for the Latvian National Library, which has been discussed since 1926. Latvia is the only EU member state without a specific building for its national library. This is an enormous building project, public spending on it is expected to amount to LVL 162 million.

There are also two other cultural

buildings that are to be put up – a Museum of Contemporary Art and a National Concert Hall. The cost will be equal to around EUR 305 million. The projects are being supervised by the Ministry of Culture. Tonight the minister of culture, Helēna Demakova, will join us to offer a political view about the projects. The agency *Three New Brothers* was established to pursue these projects. The name of the agency is based on the fact that there are three Medieval buildings in Old Riga which are known as the “Three Brothers” and are a popular tourist destination.

In this image you see the place where the buildings will be put up. The library and the modern art museum will be to the both sides of Vanšu bridge. On the dam in the middle of the Daugava River, there will be the concert hall. The projects will change Riga’s environment and appearance. The projects are very emotional in nature, and that is one of the reasons why *TI Latvia* was invited by politicians to oversee the projects. The agreement between us and the Ministry of Culture says that if the projects are stained by corruption, then that will have very negative consequences in terms of public trust in the government and the way in which it spends its money. This is a political attempt to do everything possible to ensure that the projects are clean – projects which have the support and the interest of the public. More than 60% of Latvia’s residents say that the library project is justified, and if we look back at Latvia’s 15 years of independence, that is an enormous leap in support.

The second issue concerns the way in which we achieved this Integrity Pact. These projects are related to a very corrupt sector of the economy. Construction is a field in Latvia in which there is fairly limited understanding of ethics in business operations. Experts and the public at large have extremely critical views about the level of corruption in this sector. This is a project of a size which will affect not only the construction industry, but a much larger segment of Latvia’s business environment, and it is the reason why we must work very hard in the area of anti-corruption and risk prevention efforts.

What does the Integrity Pact mean? How did we achieve the signing of this document from the perspective of TI? This

is a no-loss game, but the benefits are enormous. The public at large benefits because public money will be spent as effectively and thriftily as possible. Winners also include all of the parties to the agreement – the Ministry of Culture, the national agency and *TI Latvia*. The same is true of the business environment. Here I refer to that part of the business environment which wishes to change business and ethical standards in its operations.

Further I will speak about the specific benefits for each of these groups. For the public at large we are talking about the effective and thrifty use of public money. This is also an instrument which helps to improve the operations of public governance. The minister of culture, who signed the agreement, has won very clear political benefits. Her political control over her administrative structure has become more effective, and that helps her to pursue her goals more effectively. The political goals which have been declared by the minister and the governing coalition of which she is part focus on building these structures as quickly and successfully as possible. By signing the Integrity Pact, *TI Latvia* will help to improve the implementation of these policies. The minister reduces her political risks in this situation. A large anti-corruption coalition has been set up with the participation of the civil society, thus ensuring the trust of that society. Risks and responsibilities are divided up among the administration, the ministry, one NGO, and the business sector which is involved here. The burden of obligations is born by other players, and now the minister has much greater opportunities for retreat and response if a crisis should break out.

The pact says that if there are suspicions, *TI Latvia* will not issue criticisms immediately. Instead it will inform other parties to the pact in advance of its concerns. This makes the pact very interesting to political leadership. It means that the ministry has time to fix what is wrong if there has not been purposefully malicious action. It can also prepare its position, its explanation about why one or another political decision which appears to be dishonest has been taken. *TI Latvia* has faced the accusation that we are too close to politics, we have been asked why we were prepared to sign the Integrity Pact.





**This is a win- win game. All parties of the agreement gain. The society is the biggest winner because public resources will be spent efficiently.**

The fact is that this is the only way to ensure that the agreement is interesting and valid in terms of political will. If we, as a critical watchdog, were not to offer a bit of time between internal and public criticism, then there would be no sense in providing additional information to us and making the entire project quite transparent. *TI Latvia* would criticise problems in any event. This is the key to why this was possible in the first place.

The agency *New Three Brothers* is a major winner in this work, because the support and expertise of *TI Latvia* can enhance the agency's quality of operations. We can offer expert analysis on what the public might think about what the agency does. Administrative resources are being saved in the agency's operations, and this is also effective control over personnel. A very important reason for why the agreement is of use to the agency is the political dependency of the agency is reduced because of the involvement of *TI Latvia* in these projects. Latvia has had three different governments over the

course of the last year, and the political agenda, therefore, can change very quickly. The National Library project has always depended on political changes and political will on a year-to-year basis, and there was never any consistent development in this regard. In this case, the Integrity Pact makes it far less likely that the agency will be influenced by changes in the political leadership of the Ministry of Culture.

We at *TI Latvia* are proud to be involved in this process. If we have managed to establish an anti-corruption coalition in close collaboration with government institutions, then it has been recognised that we are capable of doing the work, that we are sufficiently appropriate experts. We are proud of *TI Latvia's* reputation, we are proud of several aspects of statistical data. Fully 60% of Latvia's residents are aware of our organisation, and 32% of the entire population have a positive view of our activities. This is the reputation which we can offer to politicians to enhance the quality of politics.

I will turn to the subject that we are discussing today. Working closely together with government and those who take political decisions, we hope to offer the introduction of legally binding anti-corruption practices. We hope to ensure that principles of business ethics are made more legally binding. We offer volunteer expertise to businesses to help them to improve their management quality. Businesspeople in Latvia often don't really understand their vision and perspectives, they don't understand what the public thinks about them, what are the criteria on the basis of which people evaluate a company's operations and reputation. At *TI Latvia*, we present one of the views of the organised civil society in Latvia. As you have seen, our views are quite powerful, people pay attention when it comes to the future of business operations. In the context of this Integrity Pact we have expressed our will, and I trust that we will be able to offer our views and opinions about how social responsibility can become a part of the operations of the relevant companies.

This Integrity Pact offers businesses an independent evaluation from *TI Latvia*. We have a mechanism of reporting and raising an alarm, and honest businesspeople certainly support us. In Latvia, companies



**The Integrity pact explode a myth that talking about the importance of business ethics and anti-corruption policies in Latvian business is just a bubble. These principles and policies get accustomed in daily business processes and cause legal liability.**

often face a situation in which government procurement procedures involve dishonest players. It is known that they are dishonest, but companies don't really have anywhere to turn. A company will certainly lose the contract if it raises a fuss over dishonesty in procurement procedures. I will return to our reporting mechanisms in a bit.

Are these really just bubbles? The contract was signed at the place where the national acoustic concert hall will be put up. On behalf of this occasion the minister of culture, Helēna Demakova, the director of the agency, Zigurds Magone and I blew bubbles to demonstrate that this was the last time that we would blow bubbles in talking about the importance of business ethics and anti-corruption policies in Latvian business. These issues have been the object of much discussion in the area of national procurement. At a press conference, the minister and the director of the agency said that they were honoured to sign the agreement with *TI Latvia* exactly because this would be the last time that bubbles were blown. When it comes to the elements which I just discussed in

general terms, we can speak about the way in which general principles can be made legally binding, how they can be placed into contracts which have to deal with participants in procurement procedures.

There are four principles in the Integrity Pact. The first is the principle of transparency. *TI Latvia* will have access to all administrative and political processes, including meetings within the process and with third parties. There will be ongoing exchange of information with the government. The national agency will regularly inform *TI Latvia* about everything that has to do with the project. The government will, according to the agreement, be very active in fighting against secrecy, unnecessary bureaucracy and inconvenient procedures. It has been declared very specifically that if we point to problems in the work of government, then the situation will be assessed, thought will be given to how things can be changed. The government will think about if there is any justification to limitations or encumbrances that have been approved in the process. The government and its

political participants have declared that the norms of information openness will be interpreted as broadly as possible when it comes to these projects. This is an issue which *TI Latvia* has often encountered in the activities of the government. This time we reached agreement on a political guarantee from the part of the national agency and the Ministry of Culture to say that we will receive as much information as possible to serve the public interest.

Another important principle in this agreement is that *TI Latvia* will have access to all information, including plans, blueprints, internal documents and procurement specifications while they are still being prepared, not when they have already been adopted. The agency and ministry have taken this step to prevent suspicions that the specifications might be manipulated before the procurement process begins. It will be far less possible to change the documents after they are inspected.

The principle of accountability is implemented through a political declaration to say that norms regarding conflicts of interest are to be interpreted as broadly as possible. This is something which we have encountered in Latvia on more than one occasion. There is a norm in the law which says that personal benefits and personal interests are unacceptable in the system of national governance. One may ask whether personal relationships

with someone with whom one lives in an unofficial marriage represent personal interest. The highest-ranking anti-corruption institution in Latvia has told us that it is not a matter of personal interest, even though the two people are living together and that this has been recognised by witnesses. The agency and ministry have declared that living together will be seen as a conflict of interest. The ministry and agency have guaranteed that any suspicions of the dishonest use of financing will be investigated, and a report will be issued on the basis of *TI Latvia's* statements as to what is or is not justified in terms of spending.

Another very important element is that the agency and ministry will reject co-operation with third parties if there is reason to believe that ethical violations have been committed. This is a completely new norm, a new aspect in Latvia, with the government saying that if organisations, businesses or individuals have been suspected of corruption, then the government does not want to work with them. You may ask how this is to be determined, how it is to be evaluated. The agreement is accompanied by a declaration

steps which companies must take. The government requires companies to sign this declaration. It is a voluntary decision, but as is the case with reasonable doubt and the need to justify the company's activities, this duty is the responsibility of the companies. *TI Latvia's* participation in the process means that companies which take part in these projects will find it very hard to explain why they might not want to sign this document, which speaks to transparency and honesty. It is a matter of risking a company's public reputation, although there are no legal instruments to force a company to sign the document. The voluntary declaration will become an inviolable part of all procurement agreements, and any violation of the terms of the declaration will give the government reason to abrogate a procurement contract that has already been signed.

The key to the declaration is that it ensures that we will do everything possible to prevent corruption. In terms of its content, the declaration ensures the presence of civil and criminal law in this process. The government will not have to prove to a court that there was reason to take a negative decisions on one or another

is done. The company is responsible for what happens at related companies and subcontractors, the company is responsible for ensuring that the terms of the declaration are upheld.

A next important element is that companies must approve and introduce a properly functioning anti-corruption programme which includes all of the necessary elements – mechanisms for reporting, sanctions and responsibilities. Article 9 speaks to reasonable doubt as a criterion. A three-year "guarantee of the past" is another key element. It means that the company must declare that for the previous three years, it has done nothing to violate the terms of the anti-corruption declaration and the contract.

The bottom line here is that *TI Latvia* is an independent observer in the context of the Integrity Pact, and it has full rights to choose its own network of experts. How exactly will *TI Latvia* conduct this observation? As necessary, we will offer expert analysis and observe procedures. This involves a volunteer network that we have established in Latvia. We are working closely with the TI chapters in Germany and Great Britain.

*TI Latvia* will be offering companies a "minimal standard" with respect to their anti-corruption programmes and their standards in the area of business ethics. *TI Latvia* will not be offering business consultations, but we will help companies to understand that which is expected. If a company feels that its own decisions are more successful than the ones which we have proposed, then it will be free to pursue its own programme.

*TI Latvia* is offering a mechanism for raising the alarm. We guarantee that the source of information and the information itself will not be disclosed to the parties to the agreement. We very much hope that this pact will liberate the forces of competition. By this I mean that honest companies will be able to make critical remarks about what is happening in this project without risking their own business.

To be sure, we will very much be focused on the risks that relate to the reputation of companies that are involved in this process. A new standard will be established with respect to how companies work on projects such as this one.

*TI Latvia* very much hopes that these cultural objects are so important to Latvia and so saturate with emotion that we will be able to work together to change Latvia's cultural and business environment. I believe that the Minister of Culture Helēna Demakova will say the same at our reception tonight.

Thank you for your attention.●

## The principles of Integrity pact:

- ➔ transparency;
- ➔ accountability;
- ➔ public participation;
- ➔ corporate social responsibility.

which speaks to reasonable doubt. The concept of reasonable doubt is the one which we use in evaluating a good or a bad reputation. The good thing about the government's attitude is that the obligation of proof basically rests with companies. Companies must prove that their practices have been appropriate and that there is no reason for the public doubts which have arisen vis-à-vis those practices. Another very important element is that quarterly reports will be made public.

Public participation is a third aspect of this Integrity Pact. The legal cornerstone for this is the law on national governance. It is important that via *TI Latvia*, the public will be taking part in all aspects of this project. From the very beginning, *TI Latvia* is offering advice, and it is free to select the way in which it will oversee public administration in this regard.

The most important subject which we are considering today is the way in which we implement social responsibility, the things that we expect from businesses. First of all there is the anti-corruption declaration which sets out the range of

dishonest third party. It is enough that the criminal law has been observed. The point is that the focus is on actual behaviour, even if it does not end up being sanctionable under criminal law. In terms of civil law, behaviour which is not in line with the criminal law will allow the government to get rid of the dishonest player.

It is also very important that there will be public information about all intermediaries and agents. Companies will have to declare them, and there is a ban on using undeclared agents without the agreement of the agency. Companies will have to disclose all payments to intermediaries and agents. When it comes to the TI Business Principles, we have been told that companies are responsible for all subcontractors and secondary enterprises. There will be public information about all of the services of agents, and there will be true information about the reason why money is being paid. There will be regular reports to the agency on the payments that have been made and the relationship between the payments and the work that



# Business Principles in Practice in Baltic Companies

## Three Weapons in a Fight against Corruption in *Latio Real Estate*

Mr. Edgars Šīns,  
managing director,  
*Latio Real Estate*



Good morning, ladies and gentlemen. I am so terrified about speaking out about corruption that yesterday I almost lost my voice. You know, it means something to have been working in this area of business for 15 years. I consider myself to be someone who was once the most corrupt businessman and is now probably the most transparent businessman in Latvia. I know that you don't believe me, but I will just tell you about the environment in which we work, the experiences which we have on a day-to-day basis.

Our main job is to provide consultations to people who are involved in the property market, irrespective of whether the issue is brokerage activities or value assessment by banks. We hold almost 40% of the market for valuations. We plan to become monopolists, and we expect bribes and facilitation payments as a result. I am joking.

The World Bank has released a wonderful study of barriers against business in various countries. One point that I have studied is the ease with which the title to property can be transferred in Latvia. According to the World Bank, there are 24 different proceedings and documents that are involved, and the timeframe in which the title of one's property can be transferred is 60 days. I believe that we have some colleagues from Lithuania here with us today. I envy you, because you have only two proceedings, and the transfer takes just two weeks. We have a long road ahead of us. This is where corruption occurs, this is what we face every day. Think about this – my employees have to deal with more than 50 organisations at which employees receive low wages, and they somehow have to support their kids, even as schools are getting more and more expensive. At the same time, we have lots of fancy car dealerships here in Rīga. Somehow over the last few years, my company has learned how to extract itself from this mess. As previous

speakers have indicated, our major issue is not to wait until an organisation comes up with a decision. The main question is when that decision will be recorded on paper. I agree that payments made to speed up the process represent corruption, but the point is that such payments allow us to get a decision from the relevant organisation in a week's time. Otherwise, in accordance with the law, organisations have an entire month to reply.

We have established our own policies and proceedings aimed at avoiding corruption and facilitation payments. One of our principles is that our employees are highly specialised. For certain organisations which are involved in our work, we have several well trained, well paid and closely monitored employees to work with them. Second, our financial operations are strictly centralised. We do not put cash into envelopes or the pockets of our partners.

The most difficult and challenging for our sales staff is not to promise customers that something will be done more quickly than the law permits. This is my greatest headache, and it is actually a headache for all businesses which are similar to ours. In many cases the system doesn't work, and in many cases we feel that we cannot remain competitive with small organisations which are afraid even to mention TI. We developed our response to this eight years ago – we ask state and municipal organisations to sign an agreement with us. We understand that wages are low, we understand that the directors of these organisations need money to buy another computer or whatever else for their organisations. We have signed several agreements, and this has improved both our internal climate and our relationship with the various organisations.

The response of the organisations has been diverse. There are some which have still sought money, there are



**Bureaucratical procedures implemented by state causes unethical behaviour and are the biggest barriers for real estate business in Latvia. Business environment can be improved by changes in law.**

organisations which, after awhile, have told us that our agreement is OK. The focus is particularly on municipal organisations which issue various permits. If we cannot get through to an organisation, we use our lobbying abilities to change the situation.

We've been in this market for a long time, we now all of the politicians, we know what their ambitions are. Believe it or not, it really helps if we present them the World Bank study and make clear how bad we appear in this regard. Politicians in the current governing coalition all swear up and down that they will do something to improve our situation in this context.

If that doesn't help, then we have a third option, which is our nuclear weapon. I am president of the Latvian Real Estate Association and a member of the council of the Latvian Association of Appraisers, and so I have certain influence. I can raise the questions if an institution is necessary at all if its only purpose is to survive and to remain afloat. One particular issue is the State Land Service. This is a small country, and just imagine – it has 3,000 state employees who handle all land survey activities, including measurements and registration. They themselves are entrepreneurs. The analogy would be a football judge who suddenly starts to play on one team. The State

Land Service is now the main coalition to the government about how to reform it. The draft law that has been prepared does not speak to three procedures and two months. No, the proposal is that there be 28 procedures and 75 days to define one property. This is a screaming example of the problem, even for a nice political force such as "New Era." If organisations like this one are transformed without expertise, if the organisation's own insiders – people whose needs and performance are questionable – are used as advisers, then the consequences can be very poor indeed.

To conclude, I would like to say that the situation is not yet good, but we are improving rapidly. I think that the national economy will be very much helped if an organisation like *TI Latvia* and its colleagues will simply encourage politicians to change the procedures and to make them more transparent. Thank you.●



# Unwritten Code of Conduct in *Mažeikiu Nafta*

Mr. Valdas Laurinavičius,  
director, International  
Audit Department,  
AB *Mažeikiu Nafta*



Good morning, everyone. Before I begin my short presentation, I would like to tell you a short story. I was asked to come here and to make a speech by our general manager, and at first I was very reluctant to do that. I went to him and said that we don't even have a written statement on ethics, we have no ethics programme or anything like that. We began to talk about the things that we have achieved in terms of overseeing ethics. At the end of our conversation, he asked: "So, do we have an ethics programme or not?" And my answer was: "Yes, we have." We don't have anything in written, but we have an ethics programme as such. I think that it is important not just how much we have achieved so far, but also the direction in which we are moving. I think that in today's audience, everyone is moving in the same direction, and so I have things to share with you.

The first natural question is why we have invested ourselves, our money and our time to the management of ethics. The obvious answer is that we do it because we expect a payoff. I don't know whether it is really politically correct to make that statement, but obviously we care about the price we

pay or might pay if our employees, business partners, clients and contractors behave unethically or illegally. Perhaps the core reason for this is that we have personal values which are based on religion, culture and family. We don't want our personal values to conflict with our business principles. Obviously, we care for our community and our country. Those are the reasons.

Next I will focus on the price that we pay for unethical behaviour. You may know that statistics in the US show that around 6% of total revenue are lost because of the unethical behaviour of employees. I believe that very similar statistics exist in other member states of the EU.

Apart from direct losses in terms of revenues or cost increases, we might lose a great deal – including our entire business – if we violate environmental and safety requirements. I will offer you a really good illustration of this – real-life photos. You see hoses which are used to steal product from the pipelines that are in the territory

international case. We found seven kilometres long hose attached to the pipeline. There were 25 people involved in this illegal act, including five policemen and one customs inspector. Two years have passed now, and as far as I know, nothing has changed – there have been no prosecutions, no one has been punished. Generally, prosecution in such cases tends to be very slow, and penalties are small or non-existent.

We have statistics about employee violations in our company. I was amazed to see that in 2005, there have been no thefts at all on the part of our company employees. Generally speaking, there are two things that are of major concern to us – theft by employees, and intoxicated people in our territory. That is a major risk for us, given the area of business in which we are engaged.

What are we doing about the management of business ethics? First of all, we have committed ourselves to the highest standards of business ethics, and we have declared that we expect the same from our business partners –

## The statistics in the US show that around 6% of total revenue are lost because of the unethical behaviour of employees.

of our refinery. This is something that was done by our own employees. The problem is that this pipeline is not isolated, it's part of an entire pipeline system. It was entirely possible that our entire refinery might be blown up. These people don't care about safety.

Our Security Department told me that between Mažeikiai, where our refinery is located, and the city of Klaipėda, there is a village in which everyone is doing business on the basis of our product. The product pipeline originates in Russia, then a small part of it passes through Lithuania, and then it continues to a terminal in Ventspils, here in Latvia. There are lots of illegal attempts to tap into the pipeline.

The situation about illegal taps has really improved since 2000, when there were nine cases. Last year there was just one illegal tap. This data is quite new, it dates back to last Friday.

One really interesting case that we experienced in 2003 was really an

clients, contractors and so on.

Next, we recognise that ethics management is a continuous process, it is not a one-time activity. We try to involve as many of our employees in this process as possible. This year we worked with *Ernst & Young* to offer extensive training in the area of business ethics to our senior management. The EU has financed training for another 320 employees at various levels.

We have also assigned responsibilities in terms of ethics management. Our general manager fully supports all of our efforts in this area. There is one person who is responsible for coordinating ethics management activities – that's me. We try to take decisions related to ethics in groups, not individually. We have a communications channel via which all company employees can report unethical behaviour. It is not perfect, but we have it.

We have also established a zero-tolerance policy vis-à-vis certain



Courtesy of Māžekis naldia

activities. More on that a little bit later. We have established a conflict of interest policy. We have introduced a procurement policy which has significantly reduced the possibility for kickbacks. We use a tool that is called the Integrity Triangle for mitigating integrity-related risks. I believe that you are familiar with this principle, and so I will not go into it in detail.

As far as zero-tolerance policies are concerned, these apply not only to our employees, but also to contractors and partners. We require full compliance with health and safety regulations. In our own territory, it is unacceptable to enter under the influence of alcohol or illegal drugs, to use or possess them, to enter without authorisation or to

remove any company property. I believe that the improved statistics which I mentioned previously can be attributed specifically to that policy.

Obviously, we cannot be ethical just inside our refinery. We expect certain behaviour from our contractors and clients. We communicate these expectations to the outside world. We subscribed to the 10 principles of the Global Compact. Some of you may know that we initiated and sponsored a major conference, "Honesty and Integrity in Lithuanian Business," in Vilnius. The conference was really successful, we brought together representatives of major Lithuanian businesses. We are also a founding member of the Lithuanian Network for Responsible Business. Colleagues from Lithuania may have noticed that in all of our public tenders, in all of our advertisements in the newspapers, we always say that we will follow our procurement policies and procedures that are very similar to those of public procurement systems, and this significantly reduces the risk of kickbacks.

I want to give you some very interesting statistics. I should probably indicate the source. It is an internal auditing journal, and these data are one year old. 83% of companies have formal codes of ethics and conduct – we don't have one yet. 98% of respondents fully agree that ethics and compliance programmes are an

essential component of corporate government. We agree. Among those companies which do have codes, 25% said that they do not check to ensure that employees are complying with the requirements. That basically means that they don't care. We do.

A total of 32% of companies do not provide employee training on the requirements. We do. 45% of companies do not have an ethics officer. We do. The statistics, in other words, show that there is a certain mismatch between words and deeds.

As I have said, we have accomplished certain things, but we need to do even more. We need to plan and co-ordinate better initiatives in ethics management. We must improve the way in which we communicate our efforts to rank-and-file workers, because our organisation has a really complicated structure. We have 3,500 employees with a very complex hierarchy, and it is really hard to ensure that messages filter down among the various levels of employees. It is also difficult to get feedback from them. We need to improve our hotline, we need to introduce a whistle-blowing policy, we need to make our hotline anonymous. There are lots of things to do.

Obviously, we also expect things from our partners. We expect better co-operation from our labour union. We expect a commitment on the part of the government, we expect co-operation on the part of law enforcement agencies. Just think back to that slide about the pipeline – there must be better investigation of illegal activities.

Finally, let me add some slightly philosophical thoughts on the issue of ethics management. We really believe that we don't need to alter other people's values or souls, we just need to manage values and conflicts among them. These activities do not require a global change in the business culture, we do not need to wait for a new generation to grow up. All that is needed is that we must begin to manage business ethics and that we need to be proactive in this process.

When we talk about business ethics in our refinery, some people – and particularly older employees – tell me that it is not possible to change the things which the Soviet era did to us, we just have to wait for a new generation to come in, and then we can talk. I think, however, that we can achieve at least something, if not a great deal, with the same people in place. Thank you for your attention!●



# Business Principles in Practice in Nordic Countries

## The Post-*Enron* Life in *Ernst & Young*

Mr. Monty Åkesson,  
konsultants uzņēmumā  
*Ernst & Young*



Most people in Latvia know me as a member of the *Council of Foreign Investors*, which was established in 1999. I believe that initially we had 25 major investors and foreign chambers of commerce as members. We sought dialogue with the Latvian government. I was the chairman of the council for a number of years, and the discussions that we had with the Latvian government about anti-corruption issues have really focused the dialogue ever since 2001. I was involved in monitoring the discussions with the government. We made many suggestions which have been implemented, and I think that the process is moving in the right direction. At the same time, however, some of our ideas have not been implemented.

What I want to show you today is the way in which *Ernst & Young* has engaged in corporate developments in relation to the issue that we are discussing today. I have referred to this as the post-*Enron* life. Many of you know that *Enron* was an American company which failed in terms of corporate governance structures. This had a massive effect on another company –*Arthur Andersen*. *Arthur*

*Andersen* collapsed mostly or entirely because of *Enron*. *Ernst & Young* took over *Arthur Andersen's* activities in 54 different countries, including the Baltic States. We merged in 2002.

*Ernst & Young* is a global organisation which works in the areas of accountancy, taxes, auditing and business consultations. The merger was not easy. We had to bring together two organisations, both of which wanted to return to the arena with a lot of trust in hand. We had to communicate the necessary conduct to more than 120,000 employees all around the world, including in Latvia, Lithuania, Estonia and Sweden, where I have spent most of my time. I will tell you a little bit about what happened in Sweden and in Latvia to provide some examples of the various issues that were at hand.

Trust is the major commodity for all organisations. If we lose trust, we lose our business. The value of a good reputation

*Young*, and then it was made public via the Internet. This is a clear set of business conduct standards, it includes guidelines as to ethical behaviour, and it sets out a behavioural framework for guidance purposes. As I said already, this work was based on our earlier value statements, on our attempt to find out what was right and what was wrong in our business.

The new thing about the Code of Conduct is that it was created by a number of people in our company, including our global managers, to determine the way in which these issues will be handled in the future, the resources that will have to be put together in order to make sure that this is a viable tool in our everyday work. Every new employee who joins *Ernst & Young* must sign a contract with the company in which he or she promises to observe the requirements of the Code of Conduct in full.

### Trust is the major commodity for all organisations. If we lose trust, we lose our business.

is immeasurable. What did we do to develop our credibility? We decided that *Ernst & Young* has certain common values which were shared by most of our people, especially by those of us who had engaged in a lot of international, national and regional work. The values were in place in the late 1990s, luckily enough, both as a statement and as something that was integrated into our global process. Our framework became more integrated than ever before.

The nucleus to our values is the question of integrity, respect for others, and teamwork in our operations. Teamwork means that it is not just one person who works with a client, it is a team. Another value is that we are recognised all around the world as a thriving company with a lot of energy, one which takes the lead and tries to change things when they go wrong. These values we used in developing a Global Code of Conduct. This was at first an internal statement within *Ernst &*

There are five sections in the code. The first applies to how we work with each other as colleagues, as staff members, partners and heads of department and organisations. The focus is on how we act in the context of professional integrity. In our business, and particularly in the area of auditing, integrity and relations with clients are very important. We could never learn what is going on with our clients and maintain their trust in us if we were to run around and tell everyone about the problems that we have found. We have seen some very bad habits, indeed – staff cheating employers, etc. A professional response to these kinds of things requires certain policies. The other thing is the maintenance of objectivity and independence. Independence means that we are not dependent on our clients, we do not work with clients with which we do not have an independent relationship. We cannot be shareholders in the companies which we audit, and we cannot provide consultations to



**Whatever you do, always be ready to explain your motivation and reasons behind your action in front of TV cameras.**

companies which we audit. The last one is something very new in our society.

There is another thing which is important in terms of our guidelines. *Ernst & Young* is a global player, with presence in more than 140 countries, and our name and our reputation are probably our most important assets. We have seen companies in the market which have seen a deterioration in their name and the closing down of their business just because they have lost people's trust.

I will turn to some of the resources that we have instituted at *Ernst & Young*. We have global directors for the Code of Conduct. Monitoring this process is a full time job. We have regional directors for places such as the Central-East European Region, to which the Baltic States belong. We have a Nordic director of the Global Code of Conduct. We devote a lot of time and manpower to monitor this process on a daily basis. Each country has a director for the Global Code of Conduct. It is Ieva Alberte in Latvia, director of human

resources for our company. She used to be the secretary or *the Council of Foreign Investors*, she spent four or five years at that post. In Lithuania, the job is handled by the head of our Audit Section there.

There are two major resources in our organisation which deal with this matter. One is the area of human resources training, the way in which our staff are trained. Every new employee at our company takes an introductory course – they study the Code of Conduct which they will sign when they sign their contract. This is an embedded component of our personnel policies. We also have an ethics hotline, which exists at various levels in our company.

I think that I will skip most of the issues which relate to the *Ernst & Young* Global Code of Conduct, because it takes a long time to go through all of them. I will return to this matter later, if there is more time, but right now I want to talk about what we did in the Baltic States to implement these principles. We faced

difficult times in 2002, when we were integrating the companies of *Ernst & Young* with companies that used to be *Arthur Andersen* representatives in the Baltic area. We merged our offices in four weeks' time in Latvia, in two weeks' time in Lithuania, and in one month's time in Estonia after the decision was made to go ahead. The process was concluded on July 1, 2002. The corporate world was rather unfriendly to us – the *Enron* scandal had led to a great deal of bad press about *Arthur Andersen* in the Baltic countries. What would happen when these people moved over to *Ernst & Young*? Would they change?

In the event, we dealt very quickly with the press, the media and the public, and we kept most of our staff on board. No one fled from our organisation, although some of our colleagues have moved on to other jobs. We are the market leader in Lithuania, we are level with *Price Waterhouse Cooper* here in Latvia, and we have some way to go in Estonia. *Ernst & Young* has enormous responsibility for the development of society when we conduct our audits, when we work with state enterprises, private firms, public companies, major international businesses



with a presence in this region, and a lot of local companies. I've been in Latvia since 1996, when I found a lot of Swedish businesspeople who were complaining about unethical behaviour. They told me that they couldn't get a good contract without paying a bribe, etc. Everyone complained to the ambassador, and so I said: "Why are we complaining all the time? Let's do something about it." We launched the Swedish Chamber of Commerce, and later we launched *the Council of Foreign Investors*. We needed to have a good dialogue with the government, but we also needed to develop our own businesses in a more transparent and ethical way.

As I noted, the Global Code of Conduct is now two years old. It was introduced in September 2004. In our business, there is something called quality control. It is very important that we do the right things and not the wrong things. I have spent 25 years in this industry, and now we are implementing a quality control system, we have our ethical principles, we are using the Global Code of Conduct. If we find in a review of our work that partners or staff members have not acted precisely in relation to issues such as transactions that are not taxed (this is a major problems in this area), then we file reports

"Remember, whatever you do, be prepared to explain your actions to the TV cameras before, to explain why you did what you did."

I remember that when I first came to Latvia, I found myself involved in two situations of bribery within the first two months. One involved a foreign company which was choosing its auditor. The managing director said: "How much will I get if I recommend you?" That was a signal to show that this is a difficult business. Is that the way in which I have to behave if I am to expand my business? I did not react to his question, and we did not get that company as clients.

I was sorely tested by my staff. I employed a lot of people from the Stockholm School of Economics, which is the leading business school in the Baltics. I was able to work with them as a teacher, I also learned from them. They had their own problems. They said that family members had gone to hospital and been told that if they paid, they would get better treatment. Is that unethical or not? The students I hired had to behave in some way, and at the Stockholm School of Economics they took courses in business and ethics, but they still had trouble believing that the situation could change. These were intelligent people,

jeopardise your independence. We often bring in regulators. It was more difficult when we began work in Latvia, there was not a viable institution of auditors at that time. International regulations had not even been translated into Latvian. The World Bank criticised a lot of what we did, it said that our business was not powerful enough to deal with things that businesses were doing. We're doing better now, we engage many regulators.

An ethics hotline is a must. Is your hotline effective? It's hard to know. We're not saying that all is well at *Ernst & Young*, but we do have a framework, and we are receiving feedback.

It may sound a little bit stupid that an organisation like ours needs a written policy which is signed by staff to say that they will not behave unlawfully or unethically. That is simple common sense. Sometimes, however, people want a piece of paper which says that they cannot act unlawfully at *Ernst & Young*. Then they say: "Thanks for the time we spent together, and goodbye. I have to go out and find a new client." This may seem simplistic, but it is sometimes necessary.

We also try to be very transparent in relation to our clients. Back in the old days we used to send out one bill every six months, we charged, for instance, 50,000 dollars for the work that we had done over the last half-year. There were no explanations, nothing of the sort. Today we state every hour of work that our staff have done, we state the per-hour fee, etc. We try to be very transparent in our conversations.

I can tell you another thing – reject inappropriate pressure. Here's a story. About five years ago we found that a subsidiary of a Finnish company was cheating its owner. The subsidiary was our client. The question was simple – would it be the company, or would it be us? I was dealing with the managing director of the Latvian operation. He was a tough guy, his bodyguard was right outside my office, I didn't know what this man was carrying in his pockets. I insisted, he left, and we maintained the relationship even though we had reported what was going on to the parent company in Finland. When you take these kinds of steps, when staff see that you behave in this manner, you create a great deal of credibility and trust within the organisation. It is important to reject inappropriate pressure which can occur in our industry.

I think that we have covered our work at *Ernst & Young*. I hope that I will be involved in the discussions later. Thank you! ●

## **In the field of auditing a company cannot earn more than a certain percentage of income from one client in relation to total income, because that can jeopardise your independence.**

and work with the individual who has not reported accurately. This helps to develop the relevant company's internal structure. People from the UK and Australia are coming to Latvia to do quality control, people from Latvia are going to Sweden to do the same. This has also been very tough in the Nordic area. Some of the problems that we have discussed here today involve clients of *Ernst & Young*. We have sometimes had to behave very provocatively in the market so as to prevent any negative influence on *Ernst & Young*. We have ended relationships with partners, we have sacked managers who have not behaved in line with our principles. All of that could be expected. One of the sections in the booklet which explains the Code of Conduct sets out a series of questions which we need to ask to ourselves as auditors or staff members. I remember that when I entered the industry, I had an older mentor, and he once told me:

they were 19 or 20 years old. I thought that they were fresh and unspoilt, but there were difficulties. I understood that we had to monitor the process. *Ernst & Young* did not grow very much back then, because we rejected a lot of clients during that period in time. I am very pleased about that now. Asking the questions which I have discussed here is of a lot of help. Because we regularly review the system, it works.

Let me return to some other issues. We are very tough in relations with our clients. I have seen internal memos between ourselves and our clients in which we have many criticisms about specific forms of behaviour. We lose a lot of clients because we take this stand, but we have to do so in order to maintain our reputation. We have rules in our profession which say that a company cannot earn more than a certain percentage of income from one client in relation to total income, because that can



# The Integrity Programme – the Guarantee for Reliability in *Norsk Hydro*

Mr. Arvid Halvorsen,  
senior vice president for  
Corporate Social Responsibility,  
*Norsk Hydro*



I am here to tell you about our work in the area of integrity at *Norsk Hydro*, about what we call the *Hydro* Integrity Programme. I will talk about its background and its contents, but first I want to answer the question of why we are doing this. We are doing it because we believe in it. We believe in high standards of integrity at our company, we believe that this is a part of our heritage. At the same time, however, we have to be realistic about things, we must be humble about these matters. Our company has 36,000 employees, and there is always a good chance that someone is doing the wrong thing. We have to work continuously to reduce that probability to the smallest possible number.

Unfortunate things happen not so much because there is a lack of company regulations and ethics programmes, but rather because these are neglected. Having colossal rules and codices is simply not enough. These things must be an aspect of the daily business of the company and all of its employees. We are trying to do that now. For years and years we had colossal codices and documents to state our rules about anti-corruption and other values. We have laws which also give us a lot of guidance. These, however, are statements at the

level of principles. Our Integrity Programme is aimed at turning principles into practice, at making them operational for our organisation.

First of all, a little bit about *Norsk Hydro* for those of you who are unfamiliar with the company. We celebrated our 100<sup>th</sup> anniversary this year, we are exactly the same age as the modern nation of Norway. We were the first industrial producer of nitrogen fertiliser. The fertilizer business was split out as a separate company two years ago. Today our main area of business focuses on oil, gas, electricity and aluminium. Our international headquarters are in Oslo. We have 36,000 employees in 60 countries, we have 43,000 shareholders. The Norwegian state owns a large share – 43%. It does not own a majority, but it has never tried to interfere in the operations of the company.

Our Integrity Programme is focused on the fight against corruption and on human rights. It is based on our company's culture, on unwritten rules

month ago. We're now running a campaign in our organisation which will continue for years and years in various shapes and forms. The cornerstone for the programme is a set of steering documents, which we call our company directives. There are lots of things which these documents say about anti-corruption efforts. For example, the *Hydro* Social Responsibility Directive, for instance says that we do not "permit or tolerate participation in bribery or other forms of corruption." There is the Code of Conduct Directive, which says similar things. There are more statements in the directives, these are just two of them.

We also have to talk about international law, that is another important cornerstone for our Integrity Programme. These laws change all the time, international conventions are developed further, and we have to keep track of all of this. We have to put all of these laws into practice. There are three kinds of laws that we have to monitor and ensure compliance with them. There

**Having colossal rules and codices is simply not enough. These things must be an aspect of the daily business of the company and its employees.**

which had always been in place. We build on directives, procedures and guidelines that we have had before, we build on national laws and international conventions. We also build on what we call our volunteer commitments. We try to operationalise these principles and to provide guidance and tools for our organisation.

This is a project which is a year old now, it has many different elements. We conducted a very thorough survey of our organisation – I'll come back to that later. We wrote a handbook and developed many other programme elements. This involved a very thorough discussion, lots of consultations within our organisation and with our labour unions. We asked for external legal review of our plans. Last but not least, the plans were subject to very serious discussion and approval by our corporate management, by our board of directors.

The main element in the programme is a handbook, which was issued just a

are national laws in each country where we do business. There is Norway's Penal Code, because we are a Norwegian company. Then there is the Foreign Corrupt Practices Act of the United States. We must comply with all of these laws. Of particular importance is Norway's Penal Code, which was amended very substantially in 2003 in relation to corruption issues. It now includes the OECD Convention and the Council of Europe's Criminal Code Convention. In fact, Norway's law goes beyond these. We expect that Parliament will also imbed the United Nations Convention on Corruption into national law.

We have several voluntary commitments, as well. These are international initiatives proposed by non-governmental organisations or international organisations of governments, ones which we have chosen to support, ones which speak to our anti-corruption efforts. The main



basis for our programme is the Business Principles for Countering Bribery of *Transparency International*. The World Economic Forum has what is called the Partners Against Corruption Initiative (PACI). There is also the Extractive Industry Transparency Initiative (EITI), perhaps many of you have heard about this. We also deal with the United Nations Global Compact.

The backdrop to all of this is that we operate all around the world. We are present in 60 countries, including some which are at the bottom of the list in TI's latest Corruption Perception Index. We have significant business operations in some of these countries. There are, in fact, lots of countries which have bad results on the Corruption Perception Index, and that, of course, exposes us to corruption. We deal in gas, electricity and aluminium, that exposes us even more.

There is also a business case to be made for having the *Hydro Integrity Programme*, for staying on the straight and narrow when dealing with unethical systems. This prevents damage to our reputation, and that, in turn, prevents erosion in shareholder value. It means that we don't have to spend big sums of money in reversing problems, it allows our management to avoid having to deal with fire-fighting. Instead we can focus on our core business. You have to believe

in the positive effects of systematic work in the fight against corruption, in the battle for human rights and ethics in general. We have to believe that we are contributing toward a level playing field, one in which competition is not about the largest bribe, competition is not about offering lower labour costs by employing child labour. These are things in which we believe. We hope that if we work systematically on various aspects of ethics, we will prevent scandals and ensure that we are an attractive business partner, an attractive employer, and an attractive choice for responsible investors.

I will go back now to our programme and its elements and take a look at what we've been doing. We conducted a survey to learn about our most common and most critical challenges. We wanted to know where these occur in our organisation. There were included 74 statements about our directives, corruption and human rights in the survey. We covered about 90% of our company. People were asked to agree or disagree with the statements that were proposed to them. Respondents could agree in part, they could say that the statement does not apply to them, etc. We found out that there was lots of room for improvement in our company.

We defined challenges which are manageable even though there is always

room of improvement. The largest problem that we found was knowledge about legislation – that's a pretty basic issue. Many people in our company did not realise that the US Foreign Corrupt Practices Act applies to us. Many people work outside of Norway, they did not know that the Norway's Penal Code applied to them. There was a lack of knowledge about our corporate directives. We found that there were things that had to be cleared up with respect to facilitation payments. We learned that there was a great deal to do in terms of setting requirements and then monitoring the work of our business partners, our suppliers and our contractors. We were doing things, but not in a systematic way at all. Another critical area was defining requirements for agents and other intermediaries, following up on the operations of joint ventures and subsidiaries, dealing with gifts, hospitality and expenses. This was a very useful survey, and it helped a great deal in terms of preparing the programme.

What is the programme? The entire programme is described in this handbook, that is a central element, but there are also many, many other elements. At this time we are conducting our annual business planning and budgeting process, so the Integrity

Programme this year is a very important elements in the various units of business planing. We are working on an annual self-assessment to evaluate how well the Integrity Programme has been implemented in our organisation. We have had a whistle-blowing process in place for several years, we are running a very thorough process which related to the implementation of the Integrity Programme in our procurement processes and in the conclusion of contracts. We will launch a new system in our procurement activities in 2006. We are organising anti-corruption workshops. In short, a great many activities are a part of the mix.

The handbook stands as a part of our Total Compliance Programme. Other elements include the our Sarbanes-Oxley Act procedures and our competition law compliance manual. This is a part of it. It sets out guidelines and defines tools for the organisation, it contains case studies and descriptions of dilemmas. We are currently translating the documents, they will soon be available in ten different languages, covering the mother tongue of 97% of our employees. As of December 1, it will be available in pdf format on our Web site. The programme is, of course, directed primarily toward our employees, but we want to be transparent and to show the world what we are doing.

There is another element that our external auditor advised to us. Their comment was that the handbook is

basically not meant primarily for our employees. It is instead directed against aggressive prosecutors in the United States if we run into problems. I don't really like to think along these lines, I prefer to think that this is about helping our employees to prevent situations, as opposed to using this as protection of the company against our employers in a court of law.

These are basically the contents of the handbook and our programme, there are three main chapters. One deals with eliminating corruption and improper payments. Here we find a discussion of legislation, the different faces of corruption and facilitation payments, etc. There are several other subjects which do not necessarily relate to corruption as such, these deal with risk areas in the field of corruption – community investments, conflicts of interest and charitable donations.

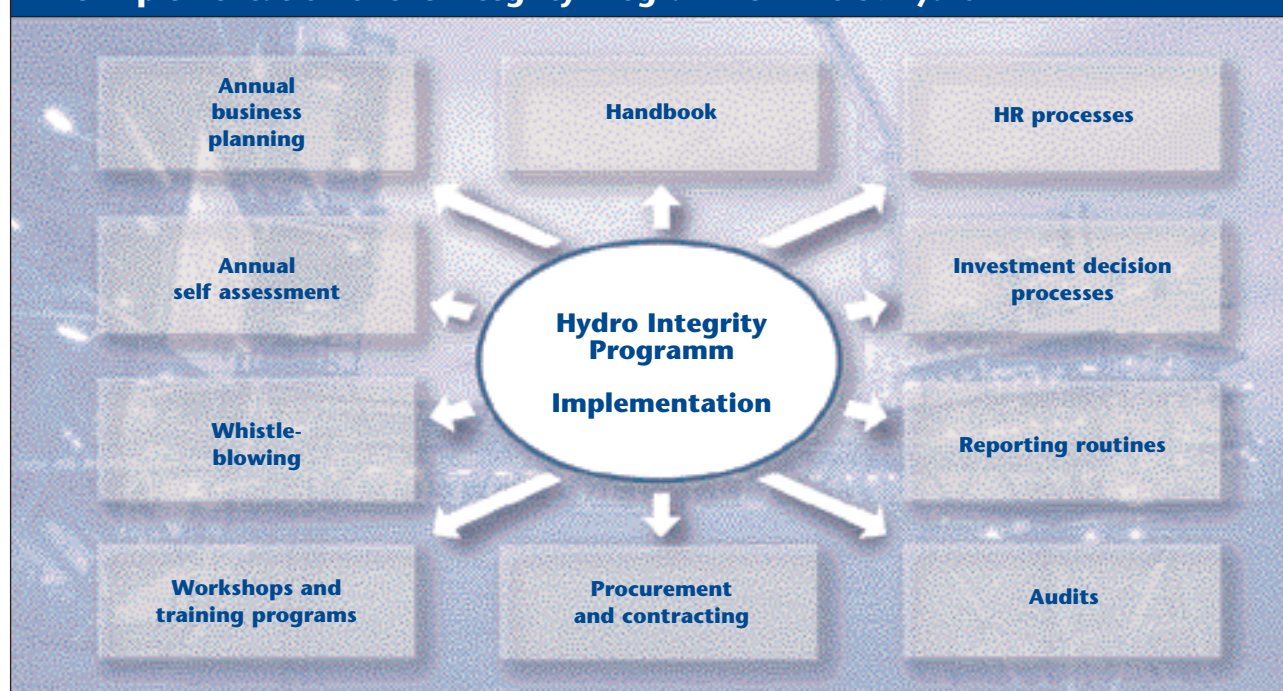
The next main chapter is on respect for human rights. The following chapter is on how we deal with corruption and human rights abuse risk in relationships with our partners and our value chain. The handbook sets out guidelines and tools, but there are external sources which we consider to be very important extensions of our own documents. First and foremost are the Business Principles for Countering Bribery, and its Guidance Document, and on our Web page we have a link to it. Then there is the Transparent Agents and Contracting Entities (TRACE) standard,

which was developed by a non-profit membership-based organisation in the United States. We are a member of it, and the group offers a lot of good advice about how to work against corruption. The third major element in terms of our extended handbook is Guidelines on Reputational Due Diligence, which is issued by the Association of Oil and Gas Producers (OGP).

To sum up, the *Hydro* Integrity Programme is intended to ensure a systematic and consistent approach to these issues in our companies. We feel that we have a good structure of ethics and related practices in our company, but as we found out in our survey, these practices vary in various parts of our enterprise. This will ensure a far more uniform approach to these things. We also feel that we are safeguarding our ability to avoid negative incidents and to contribute toward a sound and profitable business in the long term. This also ensures that we can integrate these practices into our entire system of management and operations, that we are contributing toward ongoing and constant alertness and awareness to protect our employees and the integrity of our company. The company does not find itself embroiled in court cases and scandals, and neither do our employees.

Here is the final word: Ethical dilemmas are here to stay. What counts is the way in which we deal with them. Thank you very much.●

## The implementation of the Integrity Programme in Norsk Hydro





# The Business of Transparency: **SAP**

Ms. Gabriele Hartmann,  
**Gabriele Hartmann, manager  
for corporate citizenship, SAP**



I think that we have heard some really excellent presentations here this morning. I especially enjoyed those which were offered by colleagues from the Baltic States. I really commend you on what you're doing, on your honesty in sharing your experiences with us. I really feel very privileged to have been able to hear that information.

If I recapture what we have heard so far, then I think that there is one word that has continually come up – that is the word “trust.” It seems that trust is really an essential element of business in today's world. If you do not have the trust of your customers and your partners, then you cannot engage in business. Why does SAP engage in the business of transparency or good governance? I would have two answers to that question. First of all, it is because we feel and believe that this is really an intrinsic part of the company's DNA, so to speak – a part of what we are. The second answer is that we are engaged in the process of corporate citizenship, which is a part of our product and something which our product should produce

with society, or why we, as a corporate citizen, have taken on this topic. And fourth, I would like to share with you some of the lessons that we have learned along the way – things that we are still learning.

SAP was founded in 1972 by five former employees of IBM. In 1972 there were five, but today there are more than 34,000 employees worldwide, and we have 60 subsidiaries. We are operating in some 120 countries. That is very rapid growth for any company. The issue of trust, which I mentioned at the beginning, is very important. Our partners entrust their business processes to us. They trust that our system will ensure that their operations are 100% in order and that they can rely on them. We have increasingly discovered that trust is really the basis of our leadership. It is a reason why we thought about putting it into words. Not unlike many of you, we did not have anything in written until January 25, 2003. Everyone said that ours is a very young company, everyone knows how we operate, we are honest, people can trust us. But then we realised the same thing that our

**The goal of the code of conduct is to provide an orientation that our clients, employees and business partners are aware about conduct and attitude they will get in our company.**

I can also give an example to you. I was told by one of our top officials that from time to time he has customers who come up to him and say, “Well, we understand that your products make business processes transparent now, and that is very good, but would it be possible to make certain areas a little bit less transparent? Could you alter it a little bit?” His answer is a very clear and firm: “In business processes, if you put in nine at the beginning, then nine is what should come out at the end, because otherwise colleagues from Ernst & Young and others would be very upset.”

My presentation today is structured in four parts. First, I would like to speak briefly about SAP for those of you who might not know about us. Second, I will describe our code of business conduct. Third, I would like to talk about why governance is a part of our engagement

colleague from *Norsk Hydro* told us: You cannot guarantee that everyone among 34,000 employees has the same understanding. What's more, we wanted to demonstrate to our customers, our suppliers and our partners the basis of what we stand for, the basis of what we believe. That is why we really felt it important to put all of this in written.

The issue was not entirely indisputable, because we had colleagues from many parts of our company who asked why we needed to put this in written. Why did it have to be a part of the contract? Was it the case that we no longer trusted them any more? There were some tough discussions. I am saying this so as to really encourage you to engage in this process, even if that will lead to debates within your companies.

Our goal is to provide an orientation. It also helps our employees. Whenever they



**"There is no inherent contradiction between improving the competitive context and making a sincere commitment to bettering society."**

**(Porter M., Kramer M.)**

are approached in an unethical manner – this is something that has also been addressed by other speakers – they can always go back to the written code of business conduct and say, "Listen, sorry, but no can do. Our written statement means that I cannot act that way."

Our code of business conduct is a part of the contract which each new employee signs with SAP. It is a binding framework for the entire SAP Group, and all of our subsidiaries are required to

adopt it. Our main tool in putting this message across was our intranet, where we set up what we call a co-ordination toolbox which allowed local companies to talk to employees and colleagues. We had a Q&A session on the intranet, and you are welcome to download these things. They are the basis for all of our activities, including our work in the area of corporate citizenship.

In terms of our activities in this area, there are three things that we would like

to do. First, we really believe in our values, and we feel that they are very important, so we want to be a responsible organisation in accordance with these. We want to bring our expertise and our competences into our engagement with society. If everyone brings in his or her competences, then we can all learn and change things. We opted to do fewer things in the area of corporate citizenship, as opposed to engaging in a vast area of activities – we wanted to focus on precise issues. As Michael Porter and Mark Kramer have put it, "There is no inherent contradiction between improving the competitive context and making a sincere commitment to bettering society."

What is a background on corporate citizenship? I think that it is very important for any integrity programme to be managed by a CEO who has personal interest in these issues. Some companies believe that good and stable societies are built not only through education, but also through good governance. Our activities are based on our values – transparency, openness and honesty. This helps us to build on our strengths in terms of science, technology and innovation.

We have two areas in which we focus on corporate citizenship. The first pillar is education, but I would like to focus on the second one – governance. As I indicated, integrity is a key value; it is also a part of our solutions. We feel that if we bring these two things into our global platform, then we can put them on the table and engage with other partners. In that case, we can really make a difference.

If you recall, I tried very hard at the beginning of my presentation to create a level playing field, and I think that this is probably the ultimate goal in terms of what we want to achieve with our activities.

One thing is absolutely certain if you want to achieve change and really create a level playing field if you are a company, a politician or an NGO – you will never be able to make it on your own. It's just not possible; you'll be running against a huge tide. What we have found in our business is that the best change can occur if an alliance of partners joins in and agrees on a common goal.

For SAP, the common aspect of the global platform which we use is the Global Compact. I don't know how many of you really know what the Global Compact is. In brief, it is an initiative proposed by Kofi Annan in





**If you want to fight corruption, if you want to change the way in which you do your business, then you must have a strong alliance with your partners in public, non-governmental and private sector.**

2000, the aim being to create a global platform which NGOs, businesses and UN bodies can use to engage in dialogue and really work together. SAP was among the first 50 signatories, and we are very proud to say that we built the first Global Compact platform. Because we felt that governance and transparency are such important issues, we were really happy to be a part of the advisory group which was formed before the 10<sup>th</sup> principle was formulated and introduced in addition to the nine former ones. As some of you might know, this was not entirely indisputable, because some companies had signed up to the nine principles, and all of a sudden there was the 10<sup>th</sup> one. We hope that we contributed toward the introduction of that last principle.

Our second partner, both globally and, at some levels, nationally, is *Transparency International*. We've been a corporate member of the German chapter since 2002. We find this to be a very interesting form of co-operation in that meetings of corporate members of the German chapter lead to an exchange of a lot of ideas and thoughts, as well as challenges and problems that might otherwise not be discussed. This has been a most beneficial exercise.

Another thing in which SAP is always very interested is stimulating academic exchange, and that is why we supported a symposium for scholars on the issue of corrupt transactions. We are really looking forward to the fact that in 2006, the small and medium-sized business toolkit will be launched anew with the help of TI in the United States. We really hope that we will be able to deliver the experience of this online toolkit, which will be freely available to anyone in other markets so as to satisfy their needs.

I would also like to talk about another local initiative which we support – the Convention on Business Integrity. As many of you might imagine, Nigeria is not the easiest country in the world in which to do business. Many businesses avoid Nigeria entirely. Nigerian businessmen and women find it increasingly hard to be accepted by the global community. I have a colleague who operates in Nigeria and says that these people undergo special scrutiny each time that they pass through customs operations. They have to go through an extra queue, and they always undergo an extra search – just because they're Nigerian, they get punished in this way. My colleague is

really tired of the bad perception which his country has. He used to work for a Swedish company which had no chance of doing business in Nigeria, and so he lost his job. The Swedish ambassador to Nigeria was his friend, and the ambassador told him, "If young guys like you do not do anything to change the country and really turn it around, then who else will do it? Who can secure the future of your children?" My colleague felt really challenged by what the ambassador said, and together with *TI Nigeria*, he came up with the idea of the Convention on Business Integrity. It is based on the principle of peer review. Businesses, business schools, public officials and the public sector are invited to join in an alliance which really agrees to engage in business in an ethical and transparent way, but also to be open to the critic of peers, should anyone not follow these principles. I really encourage you to visit the Web site. They've been working on the convention for 10 years, and it really is a long and slow process, but I think that as long as there are people who believe that engagement can bring along change, they will feel that it is worth continuing the fight.

I agree with my colleague that there really needs to be a management decision if a company is to operate in accordance with good business principles and good business practices. If the board or senior management do not encourage this, then they are not really in favour of working in a transparent and well-governed way. In that case, nothing will change. The role of top management is really important.

I have already talked about putting everything in writing so that the shape and form of the ideas are visible both from the inside and the outside so that everyone understands how you do business and how you operate.

Again, if you want to fight corruption, if you want to change the way in which you do your business, then you must have a strong alliance with your partners. Work together. I hope that today's conference will serve as a platform for stimulating the debate and the process here in the region.

On the other hand, global focus must not lose sight of local activities which are already underway and are already working, because sometimes those are the ones which most effectively help in understanding and addressing local needs.

Thank you very much.●

# Ericsson: No Trust, no Profit!

Mr. Stefan Johansson,  
director for Latvia and  
Lithuania, Ericsson



I'm really sorry that I was late, and I say that because I may have missed something. I'll try to catch up as quickly as possible.

I'm here to participate in workshops and other aspects of the conference, but also to share with you a bit of information about what *Ericsson*, as a global company, is doing in the area of business ethics and transparency. As you know or might know, *Ericsson* is a very old company. We've been around for nearly 130 years. In the 1890s we already were operating in Mexico and China, we were all around the world. I mention this so that you can understand the challenges that we have faced throughout the years. Also there have sometimes been headlines about our company during the course of history. I think it's impossible to do business without appearing in headlines, but I'd like to tell you about today – where we are the present, what we are doing actively in terms of this conference's issues.

Let me tell you a little bit about what we call our Code of Business Ethics and Conduct. The headline from our CEO: "Each of us must share the commitment to loyal and ethical conduct in all aspects of our business. This is essential as it fosters one of our greatest assets, trust." The

conclusion is that our aim is to build trust. That is our greatest asset. We are implementing this Code of Business Ethics and Conduct so as to maintain and to build trust, because at the end of the day, if you do not have trust, you will not do business. If you do not have trust, you will not be profitable, etc. Why are we doing this? It is about quality, it is about making sure that all of our stakeholders, customers, owners, suppliers and employees understand that we have taken a certain position and want to make it clear. The code of ethics also summarises everything that we have to say about this matter, bringing together our policies, directives, etc. It also allows our employees to know exactly what the rules are, to understand that we should feel a sense of pride. I personally am very proud about what we are doing in terms of our code of ethics. We are doing these things regularly – IÅfill come to that in a moment.

**"Each of us must share the commitment to loyal and ethical conduct in all aspects of our business. This is essential as it fosters one of our greatest assets, trust."**

**(Carl – Henric Svanberg, CEO of Ericsson)**

The point is that wherever we are in the world – and we are active in 140 countries with offices and representations – we follow applicable laws. We have also noticed that wherever we are in the world, we have to apply Swedish tax laws, which are among the world's toughest, I can say. Someone says that ours is the second-toughest tax code after the one in Great Britain. We also have business directives which cover all issues – how to act as an individual, who to relate with peers, customers, suppliers, shareholders, etc. I will not show you the document. I have it with me as a leaflet, but I can tell you that it covers compliance with laws, protection of information, respectful treatment of employees and also, as someone else mentioned, the way in which we treat suppliers and governments.

I would like to make reference to one element in this document and that part deals with conflicts of interest. That is

very appropriate for this conference. We talk about how we treat business opportunities and how we do not make use of them for our own, individual purposes. Here we refer to how we treat other forms of employment, board memberships, political activities, gifts, benefits, reimbursements, entertainment, bribes, kickbacks, disclosure of conflicts of interest, etc. We go into great detail here. You may ask how we implement this. It is something that has been a challenge. At the global level, we regularly have workshops with all of our managers and employees. Everyone has to sign a form to acknowledge that he or she has read and understood the document. We do not require that signature until after the workshop but all of our employees in the whole world – we have some 52,000 people now – have attended workshops where this code of ethics is discussed. The workshops are led by managers, including representatives of our top management.

Why are we doing this? Of course, we want to certify that everyone has understood the situation, and we wish to imply that everyone in the company takes individual responsibility for these things. Whatever you do, whoever you are working with, whatever position you have at any level of the company, you have the responsibility of living up to this code.

Another thing that we do regularly is insist that people re-sign the document once every two years. This is an ongoing commitment at our company.

I'm open to questions now. I know that we are behind schedule. I'd like to add that we began the things that I have just described in 2003, and the quote that you saw from our CEO comes from the spring of 2004. Since then, we have been implementing the code actively and all over the world. It is a challenge, because the situation really is different in different parts of the world.●

# Questions and answers



**Inese Voika,**  
**Transparency International Latvia**

We now have time for discussion. I encourage you to refresh your memory and to take a look at your notes. What are the burning questions and comments that you would like to make about the things which this morning's speakers said? I think that one thought that I cannot abandon is quite simple. When you listen to the things that companies have done, it all sounds so easy, these are things which our mothers told us. At the same time, it takes so much effort to implement these things, and even companies which have been pioneers in the global market – *Norsk Hydro*, for instance – have really sped up the program only a year or so ago. I will make use of the privilege of having the microphone, and I will ask both Arvid Halvorsen and Gabriele Hartmann this question: You do not take somebody else's template, you really think through the principles, and then you implement them at your companies. That is the foundation for your ethical understanding, irrespective of how big your companies are – they are spread all over the world, you have tens of thousands of people. How do you manage the contradiction between the growing

culture of ethics and integrity and the need to start these processes from the centre? It is a difficult question, but perhaps you can give us a brief and nice answer.

**Arvid Halvorsen,**  
**Norsk Hydro**

It is a big and very important question. At our company, the process has been both top-down and from the bottom. We started off with our concept more than one year ago. The issue was discussed with our top management. That was the way in which we discussed the things that should be covered by our concept, the extent to which we should develop it in detail. Then we in the Corporate Social Responsibility Department went out and did the work, but we did it by having discussions within our organisation, receiving reviews from people and learning about the impact that this would have on the organisation. When we got to the point of discussing the content of this handbook with our corporate management, for instance, we held three meetings where there was very extensive review of the handbook before final approval was given to it. In a sense, we sorted out the various practices of our

organisation through the survey and through discussions. We knew about what was going on out there, we knew about all of the variance in terms of our practices. To a large extent, the principles, guidelines and practices in this handbook represent what was already done before, the practices that were in place, but not in written. This is a reflection of our company's best practices. We defined them and sought to make them uniform throughout the company. It was a challenge, because there are so many different cultures and so many different ways of understanding things.

**Gabriele Hartmann,**  
**SAP**

I would say that the whole process of implementation is the most challenging and difficult task. Our code of conduct, which I showed to you, is quite a new thing, and I would say that it is now the launching pad for further activities. I know that our colleagues in the Legal Department have spent a year-and-a-half observing our practices and looking at how this is working. They've done some rewriting, and we're also in the process of identifying special areas which we consider

to be the most dangerous ones. There are departments in our company which are probably less prone to critical issues. All I can say is that we are in the process of doing this, but we are not yet there.

**Örjan Berner,**  
**Transparency International Sweden**

I have a question which is something of a follow-up to the one that you just posed. After my diplomatic career, I became a chairman of a small Swedish-Russian oil company with production facilities in Siberia, in the Tomsk region. For our own reasons, we had an acute interest in trying to prevent corruption, but one of things that I noticed pretty quickly was, of course, that it was almost impossible to know what was going on. We did not have anything of the size of *Norsk Hydro*, because ours was a small company. My question is this – do you then proceed?

**Monty Åkesson**  
**Ernst & Young**

How do you get to know what actually happens? How do you deal with what you were calling facilitation payments? Facilitation payments are made all the time, particularly in a place like Russia. I think it was Jermyn who mentioned the fact that facilitation payments mean getting around some kinds of rules, because they obviously exist – sometimes the payments are legal. There are problems of this kind which involve quite a lot of detail, but it would be interesting to hear some comments from people in the oil industry.

**Arvid Halvorsen,**  
**Norsk Hydro**

I can answer, but this is a big question. I spent a few years in Russia and it is a challenging environment. We are very concerned about not getting involved in corrupt practices. For 16 years we have been trying to develop a single oil project in Russia, and even in the context of that one project we have had many challenges. That is something of an answer. How we deal with facilitation payments? We took part in the development of business principles in this steering committee, and we support the way in which these principles address the issue of facilitation payments. We are saying that we are committed to work toward the elimination of facilitation payments, but our policy today is that every person in our organisation who is faced with the issue of facilitation payments must undertake responsibility for his or her own actions, for whether the process is legal or illegal. Every situation is different, and laws can differ on this matter. It is impossible to

describe every situation. Each person will have to undertake the responsibility, and that is difficult, of course, because not everyone out in the field is a lawyer. Even the lawyers have doubts about this. What we say is that life and health comes first. If you feel that you are in a situation which threatens your life and health, then you make the payment, no doubt about it. When someone is faced with a demand for facilitation payments that person should seek consultations, if possible, with superiors or colleagues before he or she does anything. If that is not possible, or if it does not provide a resolution to the situation, then we say that the individual must decide whether or not to make the payment, but the payment should be made only if no alternative is seen. No matter what the situation, we say that all of our facilitation payments are properly recorded in our bookkeeping, they must not be hidden in petty cash or expense statements. Facilitation payments must be recorded as facilitation payments, they should be reported internally, and they should create a basis for a plan on reducing and eventually eliminating this problem. In conclusion, let me say that *Norsk Hydro* absolutely bans its employees from taking the initiative in offering facilitation payments.

**Inese Voika,**  
**Transparency International Latvia**

Thank you. I just want to remind everyone that we will have a whole workshop on facilitation payments today, and I think that will offer us a very good place to discuss those practices which might be feasible for others.

My colleague here has a question.

**Tammu Tammer,**  
**Transparency International Estonia**

Inese Voika earlier asked why no companies from Estonia are represented here. A good answer might be that they are all at home, fighting against corruption. I believe that the real answer is that business integrity is not really seen as an issue in Estonia at this time. *TI Estonia* and its colleagues have a lot to do to raise awareness about this topic so as to ensure that companies become interested in joining in a debate about these matters. For me the most relevant presentations here today were those that were offered by our colleagues from Latvia and Lithuania, because we all work in a similar context. My question is to Mr Laurinavičius. You said that in addition to working on business integrity within your own company, you are doing things to improve the business climate in the country in general. You organised a

conference called “Honesty and Integrity in Lithuanian Business,” which attracted a great deal of attention and many participants. Why did Lithuanian companies come to the conference? Are they interested in honesty and integrity in business, or did they want their names to be cleared? Were there perhaps swindlers and crooks in the audience who simply wanted to be whitewashed?

**Valdas Laurinavičius,**  
**AB Mazeikių Nafta**

That is an extremely difficult question. I sense that there have been major changes in Lithuania in recent times. I know that companies are increasingly talking about business ethics. For some companies this may be just a fashionable thing to do, but I also think that we are approaching a critical mass of businesses which care about business ethics. I expect things to change quickly in Lithuania, but it is difficult to say why people attended our conference. There were probably different reasons.

**Jens Berthelsen,**  
**Transparency International Denmark**

I would like to follow up on the last question. Generally speaking, the investments which were received in the Baltic States 10 years ago were investments that were made with no conditions whatever. Today investments are made after risk evaluation. That is because of legislation, and it is because of an EU directive which orders banks to estimate the risk. The general trend, and it is seen first and foremost in Lithuania, is that investors are conducting audits – social audits related to labour relations, as well as audits concerning corruption. This is very much a pattern that you can see all over Scandinavia. There is certain business-to-business motivation here, it involves insurance companies, banks and the management of very long supply chains. We have heard from *SAP* and *Norsk Hydro* that they are looking at these supply chains and the extent to which risks can be identified. Production processes that are being moved to the Baltic States are a part of the supply chain issue. There might be someone who is engaged in some whitewashing, as you suggested, but you should not underestimate the extent to which businesses are moving forward themselves, purely on the basis of self-interest.

**Atis Zakatistovs,**  
**Riga Business School**

Could you talk about the costs that your companies incur in running these programmes – an approximate budget,



perhaps? Do you have internal expertise, or do you hire experts from the outside?

**Arvid Halvorsen,  
Norsk Hydro**

Is that a question for me? We haven't really calculated a budget for the integrity programme outside of our own units when it comes to social responsibility. We budgeted 10 million crowns in 2005 to develop the programme, but the cost in terms of financing and man-hours is much greater throughout the organisation. I think that you can multiply the sum by a figure of five. There is another number which I do know – the money which we had to spend on compliance with the Sarbanes-Oxley Act. We have estimated that the cost for our company was 150 million crowns, or around 20 million dollars. We should send that bill to *Enron* – the *Enron* scandal cost us 20 million dollars because of the programme which we had to implement in the context of the Sarbanes-Oxley Act.

**Inese Voika,  
Transparency International Latvia**

There was a second part to the question – do you do the work internally, with your own staff?

**Arvid Halvorsen,  
Norsk Hydro**

Yes. We receive some external legal advice, but in very limited amounts. It is mostly in-house work.

**Gabriele Hartmann,  
SAP**

Let me say quickly on behalf of *SAP* that we have never estimated the whole cost, but we use our own people to write up the code of business conduct and to determine how to comply with it. We have lawyers, people in our government selection, as well as various people from the Legal Department who drafted and oversaw the entire process.

**Valdas Laurinavičius,  
AB Mžeikiu Nafta**

We haven't calculated the cost, actually. We apply a rather informal approach, so it is really hard to tell how much money is involved. Basically the cost involves the time of our senior management, the time we spend in training employees at different levels. As I mentioned, we receive training funds from the EU. It is hard to tell.

**Uldis Cērs,  
Latvian Finance and Capital Markets  
Commission**

I represent the financial market watchdog in Latvia, and I have a question

for the oil companies which are represented here. One thing that has to happen if you are to have the reputation of a good corporate citizen is that you have to think about your suppliers and contractors. The question here is quite simple – how can you evaluate the reputation and standing of these suppliers and contractors, knowing that many of them are going to be small companies which don't have fancy Web sites, which have not invested in a formal programme of corporate citizenship, which do not have compliance statements in place, which are not members of the organisations of which you have spoken. Perhaps they have the same competitive culture, perhaps not. If your suppliers or contractor is a large company, on the other hand, is there any guarantee that it keeps its promises? You know how easy it is to post a message on a Web site and how difficult it is to follow up on it in practice.

Someone mentioned *Enron* here. You may know that Kenneth Lay used to lecture actively on the issue of business ethics in the United States. The question really is what happens in practice, how you deal with your suppliers and contractors. Second, I would like to ask how you evaluate them. Your contractors may be foreign governments which torture dissidents, put journalists in jail and sometimes kill them. How do you assess your risk in dealing with such governments?

**Valdas Laurinavičius,  
AB Mžeikiu Nafta**

That's an easy question for me. Most of our contractors are local or regional, we more or less know about them. Our contracts contain audit clauses, and my department handles some of those audits. The basic question here is whether our contractors are transparent. I know that our audits yield up very good results. Some time ago our contractors were paying their workers under the table, they didn't pay taxes, etc. Now, when we analyse the financial statements of our contractors, we see that they have begun to pay their taxes. I see a really positive turn in this regard. We know the reputation of these companies.

**Baiba Rubess,  
Statoil Latvija**

I assume that Mr. Cērs also wants me to reply. I will perhaps answer on two levels. One is very local, the other applies to what I know about the practices of the *Statoil Group*. There is no doubt that the Sarbanes-Oxley Act, SOX, has done an awful lot to ensure that there is very

transparent compliance with all kinds of processes, with suppliers, partners, employees, subsidiaries, or whatever. There are different kinds of compliance, also in terms of evaluating who your suppliers and business partners are. This involves a risk assessment which SOX demands, and that occurs on a global level.

Second, I think you alluded to human rights practices and government institutions. *Statoil* works in places such as Nigeria and Iran – pretty challenging environments in the upstream business, and there is a necessity for compliance on an ethical level. The *Statoil Group* is known very well in certain countries and certain circles for having overstepped the boundaries of its own values. This refers to something that is called the "Horton case" and has to do with facilitation payments or, actually, the misuse of facilitation payments to reach agreement on a matter. The "Horton case" occurred around two years ago, and it led to changes in *Statoil's* business procedures and practices from the top down, with very simple things such as sharing experiences, sharing challenging decisions that are to be made on an ethical or business issue.

Quite locally, *Statoil Latvia* has *Mžeikiu Nafta* as one of its key suppliers. There are companies elsewhere – for example, in Belarus – which are much smaller local players in terms of delivering fuel products. The best that you can do here – number one, look at business registers and the like, and then just use your common sense as to who the players are. I don't think that you can protect yourself 100% or ensure that you have the best partners at all times. We had experience with an extremely well known and international oil company which actually found a way of paying salaries in Latvia under the table. This was not a forthright company when it came to labour practices, and that's just life. I think that you find this out as you go along. The best that I can say is that in many of our business practices and procedures, we try to share with our suppliers. This is more at the level of our convenience stores – this is not about fuel products, but instead about anything from hot dogs to snow-shovelling services to insurance service providers. We make sure that our practices are known to all of these people, and in our contracts and agreements with them, there are stipulations which ensure that our suppliers know what our business practices are, what we demand of them in terms of values. Suppliers subscribe to these, and if we find that the principles are being overstepped, then the contract becomes null and void.

**Arvid Halvorsen,  
Norsk Hydro**

There are sort of two responses to this question. First of all, we certainly work in countries where government functions are corrupt, in countries where the government is responsible for human rights abuses and those kinds of things. We are not trying to hide that. There are probably just a couple of countries in the world where we are absolutely unwilling to work. These are a few countries, you probably know which ones they are – these are countries which are under heavy international sanctions. In other countries which are a challenge, our attitude is that we have to ensure 100% that we are not involved in human rights abuses, that we keep corruption at arm's length in the deals in which we engage. Second, we must do everything we can in our business relationships with partners, suppliers, etc., to influence our business partners and to ensure that we are not becoming complicit in abuses through their practices. We never have full control over this, of course, but we are determined to pursue these activities. We also have to believe that if our company and similar companies are present in those countries, we are influencing things in the long run. I do not think that the solution would be for all good companies in this world, all of those with good standards, to stay away from these countries and let companies with lower standards take over. I do not think that this would be a solution.

When it comes to our suppliers and contractors, I mentioned briefly in my presentation that one of the elements in our integrity programme is a forceful effort in our contracting and procurement processes. We are preparing this right now, we have done so for almost all of this year, and we plan to implement a new system for procurement and contracting at the end of the first quarter of 2006. I am not quite sure how complete the implementation will be at the beginning, perhaps we will choose a gradual system, or maybe it's going to be a big bang just to test the waters, but we are going to begin in the first quarter of 2006. One issue is to take a systematic approach to this, from the pre-qualification state all the way through delivery of products and services. The essential element in this system will be something which we call a "supply declaration," it is very similar to one that is used by *IKEA*, *General Electric* and other companies. This has not been common in the oil, gas and aluminium industries before, but we are beginning to do this, and we are also working on a joint

industry effort, bringing in other oil companies to see if we can develop a standard for this via a company called *ACULUS*, which handles a supplier qualifications register. This is ongoing co-operation, but it is slow, because we have to take into consideration the views of more than one oil company. We are participating in this, though. We are kick-starting this system over the next half-year.

**Monty Åkesson,  
Ernst & Young**

I would like to ask a question to the representative from *Ericsson*. What is your experience in terms of putting these principles into practice? Have there been times when you have lost a contract because of your very clean approach to the business in question? Could you elaborate a bit about the effects that this might have had on your business enterprise? Also, is it your experience that your competitors behave in the same way or differently?

**Stefan Johansson,  
Ericsson**

I can elaborate on this a bit. I think that one of the reasons why we have actively implemented a code like this is that we have had some problems. That has not been because of the general views of the company, because we have always had relevant policies and directives. The point is that we are represented in 140 countries, which means that we have at least 140 local managing directors, and we probably have not always been able to control them or tell them what is expected. Sometimes we have failed in this.

To go back to your question, yes, I think that we might lose some business, that is certain, but we are determined about the fact that this is the only way in which we can operate in the future, no matter where we work. Having said that, I also think that we will win business now and in the future as a well known company which has a well known code of ethics of this kind. It demonstrates respect toward all involved parties, and it builds trust for the company. If it is known in the marketplace that you are handling everything in an ethical way and in accordance with your code, then I am sure that you will win business.

**Unknown man**

You said that you will definitely win. How does that go together with practices in Eastern Europe and lots of places in Asia where you lose business because you are not sufficiently flexible? How can you communicate these issues to those

members of your staff who face these opportunities, who have the choice of going in one direction or the other?

**Stefan Johansson,  
Ericsson**

First of all, I think that you have only two alternatives – either win the business with bribes or kickbacks or don't. As a businessperson who works for *Ericsson*, you are on your own if you pay bribes or kickbacks, you will not be protected by the company any more. It means that you are violating the code. If you lose business because of this, then it is, of course, always a bad thing, but I believe that this is what we must do.

It is also true that there are ways to act and to build long-term trust, to win contracts without doing anything illegal. We have been in many countries such as Mexico for a very long time, and governments and other companies have known us for a long time. That helps to build trust. If you're entering a new country, it is problematic.

Let me put that in another way, too. As you know, we work not exclusively, but mostly with large operators. In the world of telecommunications operators, there has been a great deal of development in the area of business ethics all around the world. We talk about consolidation. Larger operators are growing. *Vodafone* is one example. *Telefonica* is another. These companies do business in very difficult areas, but they are constantly fighting against bribes. That helps us, too, and so we are all working together in a certain way.

**Unknown woman**

I was just wondering about how you react when your employees don't do what they're supposed to do in the context of the code of conduct. What are the sanctions? Are there any consequences? I think that a problem in many companies is that they have very nice programmes, very nice brochures, but then there is the issue of following up on implementation. What kind of enforcement do you have?

**Stefan Johansson,  
Ericsson**

If you are a senior representative of the company and you break the code of ethics severely – for instance, if you give or offer bribes – then you are definitely terminated with no further questions asked. You will also face the courts – if not as a result of the company's decisions, then as a result of decisions taken by others. You will not, however, be protected by the company. That is very clear. We have, unfortunately, had certain experience with this. ●

# Tools for more transparency in business

**Ms. Baiba Rubess,**  
**executive director,**  
**Statoil Latvija**



Ladies and gentlemen, let me introduce myself again. My name is Baiba Rubess, I am the managing director of *Statoil Latvia*. Until recently I was also chairwoman of *the Council of Foreign Investors* in Latvia, where we have dealt with issues that pertain to corruption, at least trying to eradicate it rather than further it, looking for ways to discuss the consequences in a society, particularly in the area of business, which lacks an understanding of ethics in business processes.

I have been given the task of chairing the next couple of hours, and my board knows that I am a tough but fast chair. We will try to stand on time, even with the changes in scheduling that go on in any programme.

Every time that I have had an opportunity to speak publicly about issues that are close to the heart of TI, I have experienced two things here in Latvia. First of all, if I have mentioned a government institution, I get hit by that institution sooner or later, within three weeks' time. I think it was Roberts Putnis with whom I was speaking on the telephone when I said, do I really have to do this? I am already in the bad graces of the State Revenue Service, quite publicly. This will do my business absolutely no good. I am not joking about this. It is always easier to speak forthrightly about these things than to hide them.

Second, I know someone who is an old-timer in the fuel business here in the Soviet Union, and he says to me, "Baiba, you know that whenever you talk about transparency in business practices and business ethics, I go to Google and look at the company which has the biggest problems. What do I find? I find *Statoil*. It is *Statoil* with the Horton case in Iran. *Statoil*, which theoretically is, or at least is claimed to be the organiser of a cartel in Sweden. *Statoil* has contraband fuel, if only a few litres, here in Latvia. How dare you speak about business ethics publicly, talk about transparency and *glasnost*? To representatives of companies and institutions at the table today, I would say – perhaps be very engaged and open today in the workshops, because my answer is pretty simple, and I generally believe in it. The more you talk about it, the more you confront it, the more you illuminate it, the more you try to figure out ways of getting out if it, the better the business environment is, the more money you make at the end of the day. This is as important as maybe doing the right thing. It actually pays to do the right thing. Workshops such as the ones we will have this afternoon are very good in this regard.

Now that I have caught your attention – there are three gentlemen who will be running the workshops, and as you may have seen on your agenda, there are three topics – "Agents and Business Relationships," "Facilitation Payments," and "Political Contributions." We will now have a brief presentation. ●

# Searching for Tools for Honest Business

**Mr. Jermyn Brooks,**  
**board member and chairperson**  
**of the Steering Committee of**  
**the Working Group on Business**  
**Principles, Transparency**  
**International**



I will give just a few comments on what we have been hearing. It has been fascinating for me, as well, and I always say that I probably learn more by trying to lead some of our programmes at TI than the other way around.

You were all talking about trust - I think that every speaker was quite right in doing so. As I said earlier this morning, the big problem is that business has lost a lot of trust. The latest blow is one which I didn't mention today - the Oil for Food Programme and the report of the so-called Volcker Commission. More than 4,000 companies were involved in the supply of humanitarian aid, food, etc., to Iraq, and more than 2,200 of them were involved in paying kickbacks to Iraq in one form or another. This led to the end of the fund. I'm afraid the oil industry was once again involved, because there was a lot of oil that was to be delivered to the West - to friends of Saddam Hussein and once again this left a very bad taste in the general public's mouth. TI hopes that some of the most egregious cases of corruption will be pursued by law enforcement officials in the various countries.

At our annual meeting in Berlin last weekend, we realised that the team which is investigating the Oil for Food

scandal has collected a huge amount of documentation, and we also realised at our annual meeting that funds will no longer be available even for a skeleton staff at the UN in New York - a staff that would make it possible to return the documentation to those countries which might want to prosecute those who are guilty. We launched an appeal and organised a press conference. We asked Kofi Annan at least to maintain a very small force at the UN so that the effort of the investigating teams would not be lost.

Let me put this in the context of what we are discussing here. I suppose that compared to the situation that was discussed this morning - 6% of money being lost by business enterprises as a result of fraud and corruption - the 2% of 100 billion dollars in aid to Iraq which was lost is a relatively modest number, but the absolute numbers are very large. The investigations cost 35 million dollars, and compare this to the very small cost of maintaining perhaps just one person in place.

This is also a trust issue. If the general public were to realise that an investigation of this kind has turned up

this opens the door to corruption so that people seek to overcome the inefficiency of the bureaucracy. We see this in so many countries. Anything that you can do to reduce the number of permits that are required for transactions, to shorten the time frame for receiving approval, etc., the better it is.

Then there was the Lithuanian story about the loss of revenue, with those wonderful pictures of small pipelines attached to big pipelines. I was reminded of a story - a *Halliburton* story. *Halliburton* is the infamous company which is currently being investigated in relation to liquid natural gas contracts in Nigeria. Perhaps 170 million dollars were paid to a solicitor in London. He was somewhere in North London, and everyone thought of him as a highly respectable solicitor. For services rendered, at any rate, he received 170 million dollars, and he made payments to various people in France and other places.

The US Securities and Exchange Commission is investigating this situation because *Halliburton* is SEC-registered. The French are investigating, too, because some of the money ended up in France. In the UK, however, nothing is

## **Transparency International tools for implementation of business ethics:**

- **TI Business Principles for Countering Bribery;**
- **Guidance Document with comments on each section of the Business Principles;**
- **Six Step Implementation Process;**
- **SEM - Self - Evaluation Model.**

massive bribery and corruption, then there would be consequences. I'm afraid that trust in the ethics of laws and related law enforcement operations would fail. We must remind ourselves of this.

The first speaker basically talked about the real estate industry, but it is closely aligned with the construction industry. According to all of our surveys that have been conducted internationally, construction is the most corrupt industry, and so it is understandable that the first speaker addressed these problems here in Latvia, too. The main issue that he was highlighting is important. Whenever you have a complex bureaucracy, or, to put it less politely, an inefficient bureaucracy with lots of permits, lots of delays, etc.,

happening. That is just one example. I have heard another story about *Halliburton* which I think is worth sharing with you. The company has been doing a lot of work through one of its construction subsidiaries in Chad, and the person with whom I was talking with told me about a woman who was working as a *Halliburton* compliance officer. This is what she said: "The amount of oil that disappeared in the context of this contract was so large that we actually depressed the oil price in the country." That is probably much more oil than was lost at *Mazeiku Nafta* in Lithuania.

I want to come to the main point - the issue which was discussed very well by Arvid from *Norsk Hydro*. That is the issue





which Arvid called “operationalisation,” or what I would call “implementation.” In other words, we can all have these wonderful standards, but what is actually needed is a look at the way in which they are implemented. I would just mention the fact that in addition to the TI Business Principles for Countering Bribery, there is a fairly long document in which we have tried to present the knowledge that we gathered through consultations, workshops and field tests. There are various extracts in your documents which focus on the three areas which we want to discuss. That is the origin of the guidance document, it can be found on the TI Web site. Also on the Web site is called the “Six Step Implementation Guide.” It takes you through the steps that are required if you are presented for the first time with the problem of how you should implement an anti-bribery policy, if you want to benchmark your own progress to see where the gaps may be.

Just to complete this process of developing what we call a suite of tools around the Business Principles, we are now working on a fairly advanced SEM tool. SEM stands for “self-evaluation module.” In other words, it allows companies to check whether they are doing a good job with implementation. The next step is then verification, either by an internal independent source or an external independent source such as auditors like *Ernst & Young*, from whom

we heard this morning. They can come along and use this tool to give you an opinion about whether you have done a good job in implementing our anti-bribery tool. We believe that more and more companies will want to do this, if for no other reason than just because increasingly, entities such as infrastructure banks, the World Bank, export credit agencies, etc., will gradually require this when it comes to infrastructure projects. We are trying to promote this idea.

You also heard from Gabriele Hartmann that we are working on an SME tool, one for small and medium enterprises. We recognised that for many companies – not the very tiniest ones, but ones which have between 50 and 500 employees – we realised that such firms frankly don’t really have the time or the resources to deal with anti-bribery issues. Larger companies can do this, because they can have employees and specialists who can help with the implementation of such projects.

Finally, I want to refer to *SAP*’s comments, because these are very relevant to what we want to do. I think that working with alliances is very important. One of the messages that TI would love to leave for this group here in Latvia – and I understand that you had a very good session in Lithuania, too – is to encourage companies with the same sort of problems that you are groping with in the same kind of economy to meet on a

fairly regular basis and to talk through the issues which are causing you problems. Share examples of how you are overcoming the problems which you are confronting in this area. Try to develop a series of good practices in your country. Apart from anything else, the feeling of being isolated and abandoned to the forces of corruption can be overcome somewhat through this kind of process. In a sense, that is what we want to begin discussing in the working groups, and there are perhaps two questions related to three subjects – working with agents and other business relationships, facilitation payments (small payments to grease someone’s palm) which cause problems, and political contributions. What are the problems? Why is this being highlighted as a problem area? Think through this – what might be the solutions? Then think about what it would mean if you decided on the policy that your company should have – how would that be translated into actions? How are you going to implement and operationalise your programme? There are two aspects here. What is the issue? And once I have decided what to do about it, how am I going to turn it into reality? In the short time that we have available to us you won’t be able to come up with complete answers to these questions, but if you keep them at the back of your mind, I think that it will be very helpful. ●

# Business Ethics Standards from a Comparative Perspective

## Group: *Agents and business relationships*

**Jeremyn Brooks,**  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles

There is always a problem in this situation, because we have to choose someone who will report on our thinking and our thoughts to the larger group. Is there anyone who would volunteer to do this? There's a deafening silence, isn't there? Perhaps someone who hasn't been speaking too much and would like a chance to speak? Yes? Thank you very much. That is Nina Kukuškina from AON Latvia. The idea here is not for me to do the talking, it is for us to have a

real discussion. Basically, business relationships can cover the whole area of dealings with business partners, whether they are subsidiaries, joint ventures or associated companies. These are branches of our own organisations, and those are perhaps the less problematic cases. Agents are generally known to be used quite openly by many companies which say, "Well, we just give money to the agent, and then we do not look again. It is up to the agent to achieve what we want." Finally, if we want to get around to that, there is the whole area of suppliers, contractors, subcontractors and even customers – if we want to talk about that

and our responsibilities in this regard. Let's perhaps just share with one another any experiences that we have had in any of these areas, and let's speak quite frankly. Nothing that we say will be attributed or reported. If you face an issue with which we are struggling or which you know to be typical in this country or elsewhere, then please feel free to start.

**Monty Åkesson,**  
consultant, *Ernst & Young*

The problem relates to some of the consequences of not just bribes, but in a great sense of unethical business. We had an enormous infrastructure project in



### Actual questions:

Why do entrepreneurs talk about business ethics?

Does a company need a special policy on business ethics? How to implement it?

Sweden and Denmark, a bridge between the two countries. Both governments were very concerned about ensuring that the business would not jeopardise the political situation. Both of the main contractors – Skanska and a company from Denmark – were very concerned about making sure that all of their subcontractors would behave in a frank way. The biggest issue was the payment of accurate taxes. You mentioned the construction industry. You know, the general contractor behaves very well, but he doesn't care about anything other than finding cheap labour. The idea is that "if they do not pay taxes, that is not my problem." So what did the governments and the consortium do? They declared that they didn't want to face the problem in the future, so the governments of Denmark and Sweden were asked to provide two people apiece who would be present at the construction sites during the entire construction period. They'd just walk around, ask each worker where he worked, which company employed him. Then they'd go to the company to see whether the tax documents are filed in Poland, in Denmark, in Sweden – wherever they should be filed. This meant additional costs for the construction projects, but we found out that in many procurement processes, there was not the rule that if the company was to gain the contract, then it must make sure that all of its subcontractors and all of the subcontractors of the subcontractors would adhere to the requirements of the contract's terms of reference. Companies were told that in their proposal, they must indicate how they would ensure that this would happen.

If I look at my friend from *Ericsson*, for instance – what would happen if *Ericsson* had a dealer who sold phones in Latvia. *Ericsson* would have to prove that it controls the situation, that no bribes are paid in selling the phones. This is an enormous task, to take on that kind of responsibility. It's easier, as you said before, if you're a 51% shareholder, but how do you control the process in the kind of business environment that we are facing today? I don't actually have an answer.

**Sanita Bikseniece,**  
**marketing manager,**  
**Ramboll Latvia**

I represent *Ramboll*, which is one of the biggest consultancy companies in the Nordic countries in the field of construction and engineering. My company participated in the bridge project. I know that we faced the same problem with subcontractors and all of the questions that relate to them. I know that there were complicated issues with respect to this control of subcontractors. I also want to say that our

company has a very high level of standards in terms of business culture and transparency, that is our company's policy. The company is represented in a great many countries all around the world, however, and the objects with which we are associated tend to be major infrastructural buildings, major tenders. It is very tough to transfer the same ethical and corporate culture to every country, and I find that to be the biggest problem.

**Jeremyn Brooks,**  
**board member and chairman of the**  
**Steering Committee of the Working**  
**Group on Business Principles**

Thank you. You said that yours is mostly a construction company?

**Sanita Bikseniece,**  
**marketing manager, Ramboll Latvia**

No, it is an engineering consultancy. It is one of the biggest companies of its kind in the Nordic countries. It's an engineering consultancy and supervisor of buildings. We employ more than 4,000 people.

**Jeremyn Brooks,**  
**board member and chairman of the**  
**Steering Committee of the Working**  
**Group on Business Principles**

One of the reasons why the construction industry has a major problem is that wherever it goes, it normally has to employ lots of local workers. This applies more broadly to engineering construction, although I think that it applies slightly less to engineers. When they go to lower-cost countries, European labour cannot be used, it is far too expensive. Second, lots of the heavy equipment is not transported around the world. If you do something in Africa or Asia, you get your heavy equipment locally, don't you? Inevitably, whether you want to or not, you have to outsource lots of your work to local companies. Is that an issue for other companies? I would imagine it is an issue for *Ericsson*, too.

**Stefan Johansson,**  
**director for Latvia and**  
**Lithuania, Ericsson**

We are not, as you know, a construction company, but we do engage in things such as building GSM networks or fixed networks all over the world. We normally subcontract most of the installation and construction work, because the operators want us to do everything for them. We use local and regional subcontractors. I'm not an expert in this area, but when it comes to the Sarbanes-Oxley Act and our Code of Conduct, we ensure certification of our subcontractors. That means that we engage in due diligence with them, and

we try to have more than one subcontractor so that there is competition – we want two or three in every country. That, of course, helps with quality, and it eliminates some of the problems, but I can confirm that our problems have not only been with customers, we have also had severe problems with various kinds of illegal things which subcontractors do. Masts and generators are ordered twice or three times, they disappear – these are very expensive things. That, of course, is a major cost. It is a huge problem, but we engage in this certification process, we make our subcontractors sign not the Code of Conduct, but an agreement which states certain things which they have to do.

**Unknown man**

Mr Brooks, you said that the construction industry is probably the industry which is most or second-most prone to corruption. I have some experience in the field of arms exports, and I would expect that this is another sector in which there are major problems. I was ambassador to India in the 1980s, when the Bufforth case was the name of the game in that country. Of course, it dominated public debate. There are two aspects which I sort of want to highlight. The first is that the case, of course, involved governments to a very large degree. The Swedish government, of course was promoting business, at least as far as I know – I am by no means fully informed, but I have no reason to think that the Swedish government was in any way involved in any kind of illicit activity. There were, however, governments in this case. The main competitors were the French and the Swedes, and governments were pushing the companies. The reason why it became an issue, of course, is that the press, the media got hold of it. That is the way, in fact, in which remedies are being executed, because the media are by far the best instrument in order to make things known and to influence political processes in cases such as this one.

There is something else, though, and that is what my intervention would boil down to. This also applies to the *Ericsson* case. To what extent can one involve various companies in a sector? In the case of telephone systems and in the arms trade, there are, in fact, very few actors, and I am interested in this question. You mentioned that in the case of *Ericsson*, you have perhaps lost a few contracts, and in the long run this was not important to you. At the same time, of course it would be natural for you – a fairly small number of telephone companies – to get together and say that you want to apply some basic



standards, the ones that you mentioned. Are you doing that? In the area of the arms trade, I know that TI has been very active, and it would be very interesting to know whether there has been any progress on that score.

**Jeremyn Brooks,  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles**

Let's go back to *Ericsson* now, and I can also say a few things about the arms trade, but I'd like to bring in some Latvian experience. I have a question about that. Let's start with *Ericsson*, though.

**Stefan Johansson,  
director for Latvia  
and Lithuania, *Ericsson***

We are not engaged in the arms industry, but as to the other question, I would like to say this. At the moment we are introducing the Sarbanes-Oxley Act at our company, and it is a difficult process. I think that all of our competitors – Siemens, Nortel, Nokia and others, they are doing exactly the same. In one way, in other words, the Sarbanes-Oxley Act is pushing all of us in the same direction, and as you know, the act helps us to resolve the relevant problems in a very good way, I would say. We are not, however, bringing together everyone in the telecommunications industry to prepare a single code of ethics. I would assume that our large competitors – not the small ones, but the large and more established ones – already have their own code of ethics. I don't know, but I am quite sure that this is the case at the companies which I mentioned – Siemens and Nokia, for instance.

**Jeremyn Brooks,  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles**

I don't want to be out of line in talking about particular companies, but I can mention a positive example. Motorola has a no-tolerance policy on bribes, and that includes the facilitation payments which are being discussed at the other group. That is very unusual for an American company, because most companies feel that they are covered by the Foreign Corrupt Practices Act and therefore do not need a no-bribes policy in the area of facilitation payments. Nokia and *Ericsson* are both located in countries with very low corruption and a very high perception of the importance of ethical standards. These three companies, you see, hold a very large proportion of the mobile telephone infrastructure market, for instance. That is a very specific market, but

it was interesting to talk to Motorola about a year ago, when the company was talking about the Indian market. Representatives of the company told me that I have no idea how competitive is the process of building a mobile phone infrastructure in a continent-sized country such as India, because the contract only comes up – I don't know the technical details, but let's say it comes up only once in five to 10 years. It's a huge contract, it appears very irregularly, and so it is very important for you as a company to win that contract. The pressures on the marketing side of those companies involve doing everything that can possibly be done to win the contract, those are enormous pressures. That is the ultimate test of whether you stand by your ethical standards.

So these are huge challenges, but I agree with you entirely. As you know, we have done this in one or two other industries – we got the industries together in those cases when there was a small group of companies which essentially have an oligopoly, which basically control the market. Then we try to get them to level the playing field. We have done this in the private banking sector, focusing on money laundering. I have to admit that this was not a conspicuous success – just look at press reports about the major scandals involving money. I mean the 1.8 billion in Iraq – lots of that money ended up – guess where! – in Switzerland once again, in its banks.

At the same time, however, there is an opportunity specifically on the defence front. Just last week there was a conference chaired by the previous head of NATO, Lord Robertson, and facilitated for the first time by TI – in this case, TI UK. We managed to get most of the major representatives from North America and Europe to sit down at the table. This process is beginning to move, let us see what comes out of that. The big problem with arms and defence, of course, is that our good friends, the politicians become involved. Whenever you have a real mixture of business and politics, it becomes even more difficult to make sure that transparency and ethical standards are observed. I'll leave it at that, but I'm sure that you know what I'm talking about. Yes?

**Monty Åkesson,  
consultant, *Ernst & Young***

There was a question here about groups of companies coming together to do something. Let me tell you a story about Latvia, because you asked for one. Latvia was facing a need for petrol, and as Baiba Rubess is not here, I can speak on behalf of her or her industry. The problem was that 30 or 40% of the distribution of

gasoline was illegal. It bypassed the customs systems, evidently customs declarations were faked, or perhaps customs officials were paid off. All of the importers – Lukoil, Statoil, Shell – they all came together into what they called the Association of Petrol Dealers. They came together and compared their purchases of petrol to the declarations which were coming through the Customs Service. That is how they found the mismatch. The state provided the official documents, the industry assembled documents from its members, and by doing this, they found that there was a discrepancy. I think that they did this on a monthly basis. Everyone was there who was eligible to be a player, and the problem suddenly began to diminish, because they could monitor the situation all the time. The customs organisation in Latvia was also involved, and this was a process in which the industry was looking at its own finances, its own bottom line. No one earned any profit from this.

In this sense, you see, industries can act together in order to do things like this. I have another example. Five years ago or so, lots of Finnish and Swedish companies were buying a lot of pulpwood from the Baltic States. Here in Latvia, it was found that no one was actually cutting the wood, these were people who didn't want to be involved in the business, because someone had to pay the farmer or the owner of the land. There were lots of intermediaries in the process. The dealers were splitting the income, because they didn't pay the 18% VAT, they didn't pay the income tax, they didn't pay the social contributions. They were keeping half the difference, the farmers got the other half. The government and the industry realised this, but at first the Finns and Swedes said, "No, it is not our business. We just buy the logs on the street when they are available, we assemble them in depots." Finally, though, there were buyers in Finland and Sweden, who said, "We cannot take responsibility when we know what goes on among our agents, those who are buying these things." So they asked the government: "Couldn't you please change the laws, help us to combat this kind of illegal bribery, whatever is going on." They got the Latvian government to eliminate the VAT on these sales process. There is still a very strange VAT law in Latvia which says that if you buy cut wood, then no VAT is involved. You can see that this is another case when all of the big players in a market sector got together – Storenso, Moda mežs, they were all involved in the process. That is another way to see that this really can



happen. Everyone recognised the problem, everyone saw that it was killing the bottom line. Thank you.

**Jeremyn Brooks,  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles**

That is a very interesting example. Of course, we also have the “blood diamonds” Example, where diamond manufacturers are getting together and trying to make sure that they are controlling the downstream use of their products to differentiate them from those diamonds which are sold to finance wars and the like.

What is interesting about your example, the first example, is that it was the state which provided the numbers. That is exactly the reverse to what is happening in the EITI, the Extractive Industry Transparency Initiative, which now involves all of the major oil companies and a number of countries. In this case it is the industry, the oil and gas companies, which are supplying public data about the payments that they make to various countries, they hope that the relevant governments will be shamed into ensuring more transparent accounting when it comes to what they are doing with the huge sums of money that are received from the oil and gas industry. But you gave some good examples here, and the question that I want to pose to those of you from Latvia or Lithuania is related to the fact that I got something of an impression from the story that was told by the man from the Lithuanian oil refinery. Is corruption really the problem here, or is it instead what could be called security? In other words, is the issue securing assets against theft? Is that actually a more immediate and bigger problem than corruption? It seemed to be that this was your main focus, or one of your main focuses.

I was reminded of a discussion I had with a woman who had the title of “director for security and ethical values” at Escom, which is a very large South African power company, and I could not quite understand why she would have to combine these two roles. Then she said, “Our major problem is not to preach the anti-corruption message to people in South Africa, Tanzania or Nigeria, it is to make sure that we have such good controls in place that people cannot, in fact, walk off with our assets.” Now, is that the main focus here, and should we be thinking about this?

**Unknown man**

The main problem that we are

facing is probably not corruption as we understand the term. Instead it is safeguarding our assets and our relations with contractors. These are the problems we are facing, you are right.

**Jeremyn Brooks,  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles**

I mean, all of this falls under the category of enforcing ethical values, doesn't it?

**Nina Kukuškina,  
board member, AON Latvia**

I actually don't agree with you. Maybe this is a specific problem for oil companies, but generally speaking, I would say that corruption and differences in terms of perceiving what corruption really is – those are the problems in our society. I think that when we talk about corruption, the problem is that people tend to think that okay, if they give a bribe, then that is corruption, but other things really are not corruption – facilitation payments, gifts, things like that. These are not really issues. If we are talking in a broader sense, what is important is to get the message across to society that this is not really just about handing over an envelope of cash, it is about doing business in more general terms. It is about how we do business.

If we talk about Latvia, for instance, I represent a very specific industry in this case, the insurance industry. Among Latvia's 50 largest companies, only 10% use insurance brokers. The others do not, and most of the ones which do not use insurance brokers are using local, not international companies. If we put this into the context of what these major companies are, then we see that they are primarily local companies – utility firms, public sector enterprises, and this is where they are not really interested in receiving the best services. Instead – how shall I put this? – they are more interested in facilitating the needs that they have, maybe the needs of politicians, maybe other needs. Theft, direct theft – I think that this is the truth.

**Unknown man**

I can tell you a story. I was on a flight from Copenhagen to Tallinn three years ago, and next to me was a woman who represented a very high-ranking organisation at the European Commission. We exchanged a few sentences, and then she said, “OK, let me put this straight. I am against your accession to the EU.” I said, “Why?” The answer was, “Because we do not have the money to support your agriculture.” I said, “OK, fine, but you

know that our agricultural sector has been dead for five years already. If there is a chance that access to the EU will mean that you will be able to change the attitudes in society, if you will somehow be able to lift us out of this swamp of bribery, of corruption, of payments made to politicians, then you must do it.” The lady remained silent throughout the rest of the flight.

As a person who is involved in the property business, I can tell you that when it comes to pipelines, housing prices are higher, because there are strange methods for saving on heating costs. That is not the main issue, though. The issue is the thinking of people about how they deal with those who are at the highest level of politics, people accept the idea that if they're going to build a bridge or tunnel in the city, then 10% will have to go to the politicians who make the decision. If we are putting up a new building for the police, and if the cost is LVL 90 million, then sure, 10% will go to the politician.” This is the problem, and I think that *Transparency International* can really help many of the people who are working here. This is a very tough battle. There are politicians and others who want to keep things the way that they are, and they try to make freaks out of honest businesspeople, they try to make this a non-issue. We need techniques, we need experience and funds, we need to learn how to bring society out of this stage, where these things are accepted, tolerated and facilitated.

**Sanita Bikseniece,  
marketing manager,  
Ramboll Latvia**

To continue with the issue of the European Union. Sure, since we joined the EU, a lot of financial support has come in, and there is a lot of work to be done with European tenders, the Structural Funds, etc. That is another problem to consider, I think, because the structural foundation of the financial support is quite big, we're talking about big money here as a segment of GDP. I don't think these issues are sufficiently regulated here.

**Jeremyn Brooks,  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles)**

It seems that we have changed the agenda here to talk about political corruption and enforced contributions at the political level. As I said to someone over lunch, one way of dealing with this is to get the media interested in exposing these things, and the response to me was this: “Well, the media themselves are not sufficiently sophisticated, many of the

journalists are not sufficiently experienced. They are probably quite young, they are lowly paid, and so they themselves are at least open to influence by politicians or others." I am just wondering whether we can give Nina some feedback when it comes to agencies and the like. If we could think back to contributions related to construction and engineering, the kinds of problems that *Ericsson* has in controlling subcontractors and outsourced work, then perhaps we could come back to the mainstream issue which we were asked to discuss in the first place.

**Edgars Šins,  
Latvio Real Estate**

To get back to the issue of business processes – what do you do with insider information? That is one of the biggest problems in Latvia. I can talk about the Latvian telecommunications industry, for instance. When infrastructure has to be built up, it has to be built up on land. The parcel of land, thanks to insider information, costs much more than it otherwise would do, and the issue is how to negotiate the price of a parcel of land where infrastructure is to be installed. This is a leak of insider information. Another example is when you are talking about tenders – it is easy to find out what your competition is offering. I understand that your company, *Ericsson*, has a code of ethics. What does it say about insider information?

**Stefan Johansson,  
director for Latvia and  
Lithuania, Ericsson**

I guess you're not talking about insider information with respect to stock prices, etc. You're talking about insider information related to business processes. As a businessman, your task is always to try to get as much information as possible. I will beg for information. If I can get information in a legal way – business intelligence, good contacts, business lunches, etc. – then I am very satisfied. I would never do anything illegal, however, I would never pay for the information, for instance.

**Edgars Šins,  
Latvio Real Estate**

Does your company have a policy on this?

**Stefan Johansson,  
director for Latvia  
and Lithuania,  
Ericsson**

Of course. Just an hour ago I showed everyone the policy, that is our Code of Business Ethics and Conduct. All of our employees, myself included, must sign that

document.

**Edgars Šins,  
Latvio Real Estate**

The problem that I see here is that I am trying to talk about a very specific case, and I think that it will be useful for companies if you are able to tell us how you deal with specific cases of this kind. You're talking about the code of ethics in general.

**Stefan Johansson,  
director for Latvia  
and Lithuania, Ericsson**

I don't have a good answer for you. For a major, global organisation like ours, this is the best option that we have found. We have to try to act globally and to implement our work globally. This is the first time that we have issued a document in which we describe what we mean with our Code of Ethics and Business Conduct. For the first time, we all have to sign it and understand it. We have workshops with managers and colleagues. Of course, I also think that if a manager then finds that on a day-to-day basis he sees or detects something, then he will have to act. Someone in the large audience asked what happens if someone breaks the rules, and I said clearly that if one of our employees violates the code of ethics, then that person is terminated. Of course, it depends on what the issue is – the code of ethics in some cases deals with small issues, but if the employee has done anything illegal, then the employee is gone.

**Jeremyn Brooks,  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles**

I would like to invite Arvid Halvorsen to share his experience. I know that *Norsk Hydro* has worked very carefully on issues which relate to conflicts of interest, and that is the main thing that you are discussing here – how to avoid this in your own bidding procedures, and when you are organising a bid for tenders, how to avoid the leakage of insider information that is then used wrongly.

**Arvid Halvorsen,  
senior vice president for Corporate  
Social Responsibility, Norsk Hydro**

First of all, we observe the principle of never creating or accepting improper advantages for ourselves as a company, for individuals who work for our company, or for anyone else. When it comes to procurement contracts and bidding situation, we have very detailed procedures on how to deal with issues that are not a part of our integrity programme but have been with us for

years and years. These procedures are very much focused on creating an open and level playing field, on providing the same information to all bidders, and on never treating anyone differently. Incidents can happen. Less than a year ago we were seeking bids for a long-term contract concerning offshore supply vessels, we were dealing with a large number of vessels, and one of the competitors complained that another competitor had been treated with preference. We investigated and found that on the basis of a personal relationship, a representative of *Norsk Hydro* who was pretty much at the centre of all this had, by accident, given more information to one bidder than to others. The information was more detailed in terms of understanding our selection criteria. This was based on personal relations, the two guys knew one another. No money was involved, but there were certain irregularities. We stopped the process, apologised to the public and to the participants, and reran the entire process. The man was not fired, because his actions were not criminal. We just transferred him to a different job, one which has nothing to do with bid evaluations.

**Jeremyn Brooks,  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles**

I don't want to make the situation worse, and I hope that I'm only speaking theoretically, but what happens if you're bidding for upstream concessions, and your company finds out that you have more information than the competition does when it comes to the terms of reference in the country where you are seeking the concession. How do you deal with that?

**Arvid Halvorsen,  
senior vice president for Corporate  
Social Responsibility, Norsk Hydro**

First of all, we are not concerned about having more than others, because it is the client or the customer who really controls the situation. According to our procedures, we never influence clients or customers or governments, seeking to give us preferential treatment in a formal bidding situation. If we are not in a formal bidding situation, then we are free, and each company tries to make itself as pretty as it can possibly be in an open competition without fixed rules. In a formal competitive situation, however, we have our rules, partly in our integrity programme, partly elsewhere, to make sure that we are never involved in corrupt practices.

**Monty Åkesson,  
consultant, Ernst & Young**

I will tell you a true story from Latvia. This is an issue that has been discussed in the newspapers, it is no secret. There was a procurement process in Rīga in the area of waste treatment, and a Swedish company was involved in the bidding process. The process was very transparent, according to the rules of the city of Rīga. On the Internet, there was a detailed description of the terms of reference. The Swedish company lost the contract, which was given to three Latvian-Russian companies, and the Swedes were very confused. They asked the municipality why they had lost. The answer was that the Swedes had not visited with the mayor. What? The terms of reference said nothing about having to visit the mayor! The answer – too bad that you didn't.

Now, what do you do in a situation like this? You say that *Norsk Hydro* withdrew its procurement process in that other case. In Latvia, the Swedes have to go to court and fight over the idea that the procedure is wrong. They feel that the environment in this process was not fair, and in this they are supported by the Swedish Chamber of Commerce and the Swedish Embassy.

The public at large learn from processes of this kind, but at the same time I listen to my friend from AON here. My experience is that there was a long time during the Soviet period and during the 10 subsequent years when the idea emerged that it is possible to work in an uncontrolled society. If we want to sell the public utilities, for instance, we can do this through an intermediaries. Who controls the intermediary? The staff of the public utility, that's who. There's a 10% kickback in the process, and this creates some serious wealth. Everyone knows that the wages of public utility workers are lousy, so it's a win-win situation for the utility – it doesn't have to pay its staff as much money, because the staff can earn money through the kickback. In Latvia, this is still a big problem, and here we have to go back to the issue of ethical behaviour. It is mostly the political leadership which creates the problem here. If politicians are allowed to do something, then how can you ask society to behave differently? We have not discussed the political contribution that has to be made in order to ensure that each phase of development moves in the right direction.

**Jeremyn Brooks,  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles**

Can I just comment here? I don't know that the last question was really answered.

There is no hard and fast rule here, but there are ways that you can deal with land price problems. Determine the price at a very early stage, before the planning really begins. In other words, learn the indicative prices before the decision making process moves too far forward. If the information is leaked, then prices normally rise. Don't pay the inflated prices, keep them level. I am not an expert in land use, but there are techniques which are used in certain countries – this is a problem in every country.

I am fascinated in the issue of using intermediaries. I had not heard this version before. This issue can be important in countries where lots of industries are state owned or linked with the state. This makes clear the problem of political corruption which comes out of the business environment. You have to put pressure back on the private sector which wants to do business with the utility companies. Major suppliers may have to get together and declare that they are going to sell directly to the companies, not to any intermediary which does nothing but collect the 10% fee. Let's think about what we can do in practical terms in this situation.

**Atis Zakatistovs,  
business ethics professor,  
Rīga School of Business**

I think that a list of these intermediaries would be a starting point, because there are different kinds of intermediaries. Some of them are business organisations. Most are in the reactive mode because the macroeconomic situation and the country's laws are changing so rapidly. Most intermediary organisations are there to collect information and to hand it over to their own people, their members. The members, however, have no commitments, and the intermediaries cannot set the agenda for their members.

There are other intermediaries, however, which are institutionalised, and the certification process is the best practice. There is not much that can be done in this case without government involvement. There are also intermediaries which provide business services in terms of getting funding from the European Union, for instance. It is claimed that in the selection process, those who make the decisions know who has filed the relevant application, there is supposedly one line item in the budget which allows them to identify each applicant, and if the "right" number is not in that line item, then you don't get the funding.

**Jeremyn Brooks,  
board member and chairman of the  
Steering Committee of the Working  
Group on Business Principles**

Trying to generalise this subject a bit – there are different kinds of agents, and you have to develop knowledge about the due diligence of these agents to decide whether you're going to do business with them. If you can get together an alliance – the suppliers of a utility company, for instance, then you can go over the head of the company and straight to the ministry. You can tell the ministry that you won't be doing business with this utility, and this is the reason why. You start with categorisation of agents and good due diligence so that you know about the services that they offer and the compensation which they are demanding in return. This information allows you to evaluate whether the company is taking bribes. Then you can decide whether to work with them or avoid them altogether.

We have touched on this issue and on the supply chain issue, but other things that were put on the table was the issue of EU funding, the misuse of publicly owned industries and the need to change the mindset which is the result of very little being done for 10 years after the restoration of independence. This is behavioural change, it is a mindset change that is necessary. This is called the management of change. It is pretty difficult to achieve, but in business, a very determined leader with a good team can work on this for two or three years, and pretty fundamental changes can be ensured. On the political level, it is much more complex, because parties and politicians are involved. I have to seen anything to suggest that there is very strong commitment among the top political leadership here in Latvia to achieve changes. Another problem is that the media are not willing to support these changes either.

**Monty Åkesson,  
consultant, Ernst & Young**

I was involved in a situation in Latvia which had to do with cash bribes, and the media were very accurate in terms of the investigation process, the media kept up the pressure. Similar cases emerged in the construction industry and private recording industry in Sweden 20 or 30 years ago, but the discussion is really emerging only just now. Perhaps we can tell some good stories here.

**Nina Kukuškina,  
board member, AON Latvia**

I would just like to point out that we have not discussed any action plan. ●

# Reports and discussion



## Groups:

Agents and business relations  
Facilitation payments  
Political contributions

**Baiba Rubess,**  
**executive director, Statoil Latvija**

Ladies and gentlemen, it is good to see that everyone was very much engaged in all of the working groups. We've reserved 10 minutes now for someone from each of the workshops to report, and then we'll have a bit of time for questions and debate. First we'll hear from the group which talked about facilitation payments.

**Antra Zālīte,**  
**SAP**

We spent half the time trying to decide whether there is a border between facilitation payments and straightforward bribery. We talked about the idea that facilitation payments are not all that evil, they are a lighter form of bribery. In discussing various angles of this matter,

we came up with just one option – absolute zero tolerance, because any facilitation payment is one kind of bribery or another.

Let me touch now on different topics that we discussed, along with solutions that might have emerged from our discussion.

First I would like to note that facilitation payments are triggered by poor public governance and by comparatively poorly paid public officials who ask for them so that things are done properly and in a timely way. This might be changed by addressing the overall political situation.

When it comes to business, good corporate governance and best practices in various companies, the most important thing is the leadership of management.

The same should be said in the public arena – political will and leadership among the managers of public institutions are keys if there is to be any possibility to deal with facilitation payments.

I will give you an example here – this has to do with the issuance of new passports in Latvia 10 years ago and today. Ten years ago my passport was full of stamps, and I had to go on a business trip in two days' time. It was possible to get a new passport officially in 10 days' time. I had to find a high-ranking official who could speed up the process without having to make any particular payment. One year ago, when I replaced by passport again, there was a clearly posted price list. If you want to make a symbolic payment, then it will take two weeks to



make the passport. If you pay a higher fee, however, it can be done on the same day. Perhaps we can eradicate facilitation payments by introducing the right incentives – specific fees.

**Monty Åkesson,  
Ernst & Young**

A similar situation exists at the Latvian Company Register. It's one fee if the work has to be done the same day, a lower fee if it can be done over the course of a week. I think this is an example of a transparent bureaucratic situation in Latvia, and I can criticise the Swedish Company Register, which needs four to six weeks to handle the same function. I suggested this mechanism in Sweden, and the answer was that it would be impossible. In Sweden there have to be equal opportunities for everyone instead the mechanism has developed in Latvia. I just wonder about the future of this mechanism, however, given that so many people in Latvia are poor.

**Antra Zālīte,  
SAP**

I would say that two weeks for replacing a passport is reasonable. I know that in the United Kingdom it takes six weeks. Poor people usually don't have emergency situation in this regard. If there is a group of people who need quicker services, then why not ask for this payment officially?

**Jeremyn Brooks,  
Transparency International**

When you talk about small amounts of money, everyone can relate to the matter because everyone can be involved. If we talk about bribery, the discussion of facilitation payments usually takes up 30 to 40% of our time. Just this question about different levels of payment which depend on the speed at which services are provided – you have to work this out in the political sphere and make sure that the mechanism is bureaucratically efficient. If you are going to have different prices, then first of all they have to be completely transparent (printed out and posted on the board or on the Internet). Second, the funds must go to the government, not to the individual who provides the service. If these two things are given and you can link this to your political philosophy, then it is quite a good solution.

**Baiba Rubess,  
Statoil Latvija**

I support Antra Zālīte here. This discussion is about facilitation payments, and in this case it's a question of fees

for services that are provided by the government. In the Baltic countries, Poland and Ireland, we often have arguments with our colleagues from Scandinavia, because they always say that they want to be very fair and egalitarian. We, however, have things to be done, and if we have to pay for speed, then we do it.

The next discussion was about political contributions.

**Daiga Rutka,  
project director, Transparency  
International Latvia**

The main point in discussion about political contributions was that there are so many differences, mostly because the public sector is very strong in Western Europe and rather weak in Eastern Europe. Instruments which are used in Scandinavia and Western Europe cannot be used in the Baltic countries or in transition economies, at least they cannot be adapted directly. I will highlight two differences.

The first relates to television advertisements, which are the main way for political parties to send their messages to the public in the Baltic countries. This is absolutely not true in Western Europe. Television advertising is not banned, it is just not used. In the Baltic countries, if we try to ban or limit political advertisements in the media, we get quite an angry reaction from media owners.

The second difference refers to elected representatives – are MPs volunteers, or are they paid employees? In Western Europe, elected representatives can keep their previous jobs, too, and be paid for the work that they do there. In the Baltic countries, elected representatives are employees of the state. These are some of the differences which we discovered, and I invite my colleagues to add to what I have just said.

**Inese Voika,  
board member, Transparency  
International Latvia**

The issue of companies was discussed only a little bit, because we didn't have many company representatives at our table. There are two ways in which companies can engage in political contributions. One is to make direct payments to political parties for campaign purposes. The second is to engage in lobbying in those specific areas of policy in which they work. We asked whether there is a limit in all of this, a legitimate line beyond which companies must not be able to go. Here again we see the difference between a

weak and a strong state, because in Latvia we have often seen cases in which companies seem to mean well, but politicians come up with bills which, at the end of the day, serve very particular interests. Our conclusion was that companies in transition countries which want to act in good faith have a double workload. They have to be aware of what they want, but they also need to know how they are going to pursue their aims. They must seek out allies who are working in the same area, and they have to ensure transparency on their own part before they find themselves accused of being corrupt.

**Baiba Rubess,  
Statoil Latvija**

Was it the opinion in your workshop that companies should not be paying for politics at all?

**Unknown man**

There is a division across the Baltic Sea. On this side, the general belief is that companies should not do that. The German and Scandinavian situation is a bit different. Political contributions made by a particular company mean that the company supports the ideas of the relevant party, and there is nothing wrong with this, as the process is transparent.

**Rytis Jouzapavičius,  
Transparency International  
Lithuania**

The saddest thing for me is that I don't see any light at the end of the tunnel in Lithuania. I have heard about Latvia's experiences and am encouraged. In Lithuania, there are only 11 registered lobbyists, along with the 141 possible lobbyists who are members of parliament. Most businesses work with political parties as illegal lobbyists. This is a widespread practice, and there is a lack of political will in terms of putting an end to this situation. I would ask for suggestions about what we can do. We have been unable to define clear steps that are to be taken in the business sector, the civil society and the government.

**Arvid Halvorsen,  
Norsk Hydro**

When it comes to political contributions in terms of money, in terms of the private sector funding politicians, then there is always the issue of loyalty – more money buys more loyalty. I think that if a company finances a political party, then it expects a certain amount of loyalty in return. If you take it to the extreme, you



end up in the situation in Russia, where a businessman is in prison because he financed several parties and bought the laws that he wanted.

**Unknown man**

I would like to make a brief comment on the Swedish situation, because we are talking about private corporations which finance political parties. Generally speaking, trade unions are the ones which have had major influence in Sweden. They finance the Social Democratic Party, which is a mirror image of the trade unions. I don't know whether this is good or bad, I don't know if it is better for society if contributions come from a complex system, not just from a single entity.

**Atis Zakatistovs,  
Riga School of Business**

I think that from the business perspective, if you look at a business

person as a practical person, then buying up a lot of politicians is a very practical tool, one which leads to a sense of loyalty. The more money politicians receive from different sources, the less loyal they have to be toward any single source; the money that is given to politicians does not buy influence. This is a very useful tool in Latvia. It shows that the political process can be influenced in a variety of ways.

**Baiba Rubess,  
StatOil Latvija**

Let's move on to the next working group – business relationships and agents.

**Nina Kukuškina,  
AON Latvia**

We started with the issue of business relationships with subcontractors and suppliers. The main question was about a socially responsible organisation with an

approved code of conduct and with good ethical principles – how can such a company operate in the business environment, how should it operate? We exchanged views about how these things operate in Scandinavia and in Latvia and Lithuania.

One of the first questions was on how we monitor business partners – how far do we go in monitoring and applying the same business principles of conduct to our external suppliers? A very valuable comment was made by Mr. Johansson, who said that *Ericsson* requires subcontractors to sign the company's code of conduct that is a requirement for certification. They really require their subcontractors to prove that they are in compliance.

Another interesting comment related to the Sarbanes-Oxley Act, which provides very good instructions as to the direction in which we should go. From my point of view it was interesting to hear about this. In legal terms, the Sarbanes-Oxley Act is not implemented in our area and may not be implemented for a number of years, but multinational companies perceive this as the right way to go.

We also touched on the issue of intermediaries. Someone said that it would be a good policy to avoid the use of intermediaries altogether. There was also a valid comment from someone else – that there are different kinds of intermediaries, and sometimes they can be very useful in providing good business services. It would not be correct to state that we shouldn't use any intermediaries at all. We concluded that we must start by categorising intermediaries, we need to engage in due diligence before we involve them. We need clearly stated procedures as to what the intermediaries offer and what compensation is expected in return.

Then we moved on to broader issues. The discussion turned to the overall need to change the thinking of people, businesses and political organisations in the Baltic countries. The conclusion was that it is a huge challenge for businesses to avoid support for improper transactions. It is much easier to form an association or join in a community and then impose a correct model of behaviour within the relevant industry. We also concluded that TI does very important things, but it requires a great deal more in the way of financial and knowledge-based support if it is to be able to tell local businesses how they could act more properly.

The main thing was that it is time for change, both in business and in politics. Unfortunately, we did not manage to come up with an action plan on how to do that. ●

**Ms. Baiba Rubess,**  
**executive director,**  
**Statoil Latvija**



Now let me tie these three discussions together and build a bridge to the presentation of Atis Zakatistovs. As I have listened to the conclusions, the issues that were discussed, the impressions that you gained from each other, even with minimal participation from the business side in the Baltic countries, I find that certain issues become very clear. First of all, nothing is black and white. For NGOs such as TI, things often tend to be seen as black and white, and that is bad. We don't have an action plan? Well, the world doesn't tend to be black and white. I can vouch at least on the part of private business that you are confronted with grey decisions on a daily basis. The black and white ones are really easy, the grey ones are the tough ones. The organisations need to find the right words and environment to discuss, because you do not have a perfect solution.

The second issue concerns behaviour. Your closing words were, "Overall, we need to change the way society thinks." Before that you spoke about the way in which corporations to trade unions should behave, you said that there should be zero tolerance for facilitation payments. There is one factor which influences this – that is the human factor. There is no such thing as an anonymous corporation or an anonymous institution. I believe that the only way to go forward is to have a certain code of conduct, whether it emanates from a company such as *Norsk Hydro* or *Ericsson* or an NGO – a code which we can discuss clearly, share it with others, tell others what the costs are. I hear, for example, the idea that companies should check their suppliers. That costs money, the human factor is a part of this. If we talk about political contributions, then I totally disagree with a part of your analysis, because television and media commercial are used in the West for political campaigns today. Maybe people are very smart, maybe not so much time is devoted to this, there are ways for limiting the ads. In terms of political campaigns, however, if there is one key source of influence, then it is the Internet. A lot of the information which is disseminated through the Internet is totally uncontrollable, totally initiated by political parties. This is a new field in which work has to be done, at least from a communications point of view – is this an issue of honest business tools, of tools that are in some sense full of integrity?

The third conclusion from all three of you has to do with joining forces, with alliances. If the strong are aligned with the strong, then it is easy to go forward. In Latvia's case, an example in the fuel business is *Statoil*. If the big elephants go forward, it is easier for the small elephants that are behind you. We can take shots much more easily than tiny, little cats can. The stronger the force, the harder it is to shoot down the movement. Woody Guthrie had a wonderful song in the 1960s, it was called "Alice's Restaurant," the idea was that he was on a beach, and then one person joined him in singing, and then another person joined, and suddenly they were a movement.

All three groups were saying that if you can create a movement of aligned and strong forces, then you can change things. At lunch today someone actually said that we should reflect on what we have achieved already, because if you gain achievements even with business, then you are setting higher goals. There are many things today which are looked upon as corruption which, 10 years ago, were not considered at all – a business lunch, inviting someone along to a vineyard if you're selling cognac. Is this good or bad? Are you bribing the supplier or not? Twenty years ago, no one was even talking about such issues.

To summarise, it is good to have a code of conduct, it is good to share it with your employees, suppliers, shareholders and even enemies. It is always good to bring an enemy over to the other side. It is very good to share a vision about where to go; it is good to return to the code of conduct regularly yourself.

In the corporate world, we should support NGOs such as TI, but let me say again that the more you give such support in the Baltic States and Poland these days the harder it becomes to work openly and transparently and to earn a profit. It is a partnership which we need to become more effective. We need to be involved in politics and find ways of ensuring that agents and suppliers work honestly and properly so that we all make a profit and make sure that society is healthy.●

# Business Ethics: Fashion Statement or Profitable Investment?

Dr. Atis Zakatistovs,  
business ethics expert,  
Rīga School of Business



By way of introducing the topic of my speech, I would like to comment on the topic of the conference, “Integrity in Business.” This is something which we intend to learn about, we’re sort of working toward an understanding. The next part is “a Nordic-Baltic Dialogue.” Nordic-Baltic? I think this is wishful thinking. I was involved in the early stage of organising this conference. What is present here is not a Nordic-Baltic dialogue, but a handful of enthusiasts who came together. My presentation will be directed not toward a Nordic-Baltic dialogue, but rather to this handful of enthusiasts. I will tell you about my experience in trying to put business ethics issues on the table in Latvia, I will report on the degree to which I succeeded. Then I will offer some thoughts about the problems which exist, about why we are still just a handful of enthusiasts who have not managed to reach out to the larger community of businesspeople in Latvia.

collective social movement of all well-meaning people in Latvia who would help the gambling association to achieve its transparently ridiculous aims.

When I went to talk with them, the discussion was slow. I talked about change management in the process, I talked about knowledge management. In 10 minutes, I provided them with an outline of how much it would cost to create a meaningful and reasonable code of conduct. I was asked, “Is it ethical to ask for money for consulting on ethics?”

I think that the problem in marketing TI to business is that TI is mostly strong in the area of principles in politics. When you talk about principles in business, then you get that question – “Is it ethical to ask for money for consulting on ethics?” If we are talking about moving forward here, then I have to say that TI needs to find a way in which it can finance its own advice. This can’t be a discussion of principles alone. In Latvia, think about the average businessperson – he or she

**Taking responsibility for little things should be a “marketing campaign” for businesses willing to do ethical business. People usually don’t understand talks about principles because it doesn’t relate to their day- to day life.**

I will tell you a true story. A few weeks ago I was approached by an association of gambling companies in Latvia. They had decided that they needed a code of conduct. This is a very telling story, because the issue here is transparency. Their interests are so transparent because at the moment they are being squeezed very painfully by one political party, “New Era”, which is trying to limit the amount of gambling in Latvia to a very considerable degree. The gambling industry decided that one possible way to deal with this issue would be to put together a code of conduct. They went through a list of experts in this field. There were some 15 people on that list. First they hired a bright young PR consultant to deal with the project. Then the people who were on the list had serious disagreements about what the code of conduct could entail. Next, the gambling industry was thinking about a

has been cheated at one point or another in the last five years, the person has been pushing others, as well. You mention the word “trust” to such a person, and you might just as well be suggesting that we all take a trip to the moon. For a businessperson, trust is a theoretical world which has absolutely nothing to do with the day-to-day operations of business.

Business ethics in Latvia are something of a lingo – everyone considers himself to be an expert on ethics. People take too scholarly an approach; they think that when you talk about ethics, you must speak from above. Change management is the best concept; it has a ring of modernity to it. Knowledge management is even better. A code of conduct is better than a code of ethics, because ethics don’t work, people get unsettled.

My experience in the area of business ethics in Latvia began a few years ago,



when there was a project called “Battle Project: Better Business Ethics in Latvia.” My approach was to avoid any discussion about principles at all, this was a grassroots movement in which we tried to get people to talk about their problems. I had some twelve groups, with 11 to 15 businesspeople in each. In order to get them talking, I made six short films of typical three-minute discussions, each involved two actors talking about daily business issues. It worked. The people started looking at one another, they were asking, “Has that happened to you, too?” Concepts of business ethics eventually grow out of discussions of day-to-day experience. It is a very good way to move forward when you are talking about the meaningful engagement of the business community.

Over the last year, I have been consulting companies on change management issues – 18 different companies and organisations, including the Ministry of Finance, the National

Auditor’s Office, the Foreign Ministry, a few banks, a few retail companies. These were all institutions which were willing to pay for my services. I think that TI should start packaging their services. If you are talking about major social change in a community, then you are talking about 1,000 little things. You can’t just change society in an overall sense, that is a meaningless and empty concept, because people are unable to swallow it. You can hope to change society if you start at the grassroots, if you start to talk about small tasks and then offer your solutions and advice.

Second, businesspeople in Latvia react to the idea that they must take responsibility for their own lives, their day-to-day commitments and their other day-to-day things, as opposed to principles which everyone is supposed to follow. This is a more useful way for introducing change management and knowledge management. It usually happens that there are lots of different

ways in which people decide that the principles do not apply to them. Changing society is such a concept. How am I supposed to do that? Taking responsibility for little things should be a “marketing campaign” for businesses.

I also think that the process needs to be financed with local money. The perception in Latvia at this time is that TI is a rich organisation which is sponsored by foreign capital, when in fact the *TI Latvia* budget is quite small if you consider its responsibilities. Second, if capital comes from abroad, people start to come up with conspiracy theories and decide that the principles don’t apply to them because they’re being imposed by others. My suggestion is that you package these things differently, go to the grassroots. People don’t understand talk about principles, because these don’t have anything to do with their daily lives. People think about their small things, because they don’t believe that big things are really about them. I believe that I am the only person in Latvia who receives money in return for consulting on change management, but this is a big market, there’s room for more experts and growth.●

**If you talk about changing the society and the management of change, the society in Latvia still waits for a recipe.**



# Questions and answers



**Monty Åkesson,  
Ernst & Young**

I have a question about the businesspeople who were involved in your discussion groups. Did you notice any change when they went back to their daily tasks after the meeting?

**Atis Zakatistovs,  
Riga School of Business**

When it comes to change management, people in Latvia are still looking for recipes. If you have a recipe, then you don't take responsibility, because someone else has done the work for you. Companies are not open to the idea of process management. They really need someone to go in and help them out in terms of this concept. All the courses in change management that I have taught are just introductory. I teach people how to think about change. People usually decide that they'll do it themselves, but unfortunately they are all consumed by their daily duties, and they don't create a process for implementing these ideas. But at least they are thinking, and they definitely agree with the things that I am saying – the problem is that the doors are not yet open for process management. It's just an eight-hour session on how to think

about change. The outcome for the group is common knowledge. The companies are different. At state-run companies, you have dedicated senior and middle-level managers.

These people are open to the misuse of funds. They can't be touched, because trade union rules at the middle level are very strong. At private companies, owners will tell you that change applies to their subordinates and not to themselves, there's a lack of leadership in bringing about change. There are different cases, and there are still companies in Latvia which go through change in terms of people taking responsibility for their decisions. There are other companies, family businesses, where the decision making order is still the same – the "big cheese" is the manager, and he or she doesn't know how to delegate tasks to others.

**Baiba Rubess,  
Statoil Latvija**

You've talked about the process, but I wonder if you can offer a brief answer to the first question – "Business ethics: Fashion statement or profitable investment?"

**Atis Zakatistovs,  
Riga School of Business**

My answer is that I don't care, as long as changes are occurring. If there is a rich man who owns a company and starts to improve business ethics because he wants to be better than his neighbour, then fine. In politics, it is a bit different. In business it can be a fashion statement, a long-term business case, something else which pushes people to take responsibility.

**Baiba Rubess,  
Statoil Latvija**

I would like to ask the TI representatives from Lithuania and Estonia to comment on whether they see the picture very similarly or differently.

**Rytis Jouzapavičius,  
Transparency International Lithuania**

One year ago I was the head of an information campaign which was seeking to tell various audiences not to give bribes. I found a respectable businessman and asked him to appear in a TV ad and to say the words "I am not giving bribes, and I suggest that you join me." He told me that he could perhaps do this a bit

later, because at that moment he was giving bribes to 15 municipal officials. We've had a few major political scandals involving business. Recently a Lithuanian business weekly wrote an article to say that scandals don't change public opinion about the businesses that are involved. I doubt that. If there are negative remarks about someone for a longer period of time, then I think that I would not agree to do something with that individual or organisation. Companies from Lithuania are coming to these conferences. Lots of companies took part in the conference that was held last summer to talk about corruption. There aren't any ready-made recipes, but changes are occurring. I'm also glad about public opinion surveys. We can compare data from 2002 and 2004 when businesspeople were asked whether they had given bribes. The improvement lies in the fact that greater numbers of respondents answered in the negative – 29% in 2004, as opposed to just 11% in 2002. I try to look at the bright side and

there are big problems. You might think that we have more expertise in this area, but I recently had a conversation with the head of the Stockholm Chamber of Commerce, that's the organisation which unites a lot of businesses in Sweden. It used to be that in order to be a member of the Chamber of Commerce you had to behave in an ethical way, but now that requirement has been removed, and I asked him why. The answer was that the Chamber of Commerce was unable to monitor the situation. Back in the 1920s or 1930s, the Chamber set up an institution against bribery, an organisation which people could ring to find out whether something was right and wrong. The institute is financed by the members. It is a very old and reputable organisation. Christmas is coming, and people are now asking how much money they can give to their clients as Christmas presents. These are small things, but that's where business behaviour starts. We must also not diminish the value of the tax authorities –

the best moment for your comments or for anything that has not yet been said – something that you would like bring over for tomorrow.

One thing from this morning that was not really touched upon during the day is the idea that it should be the grassroots where companies take the initiative. At the same time, however, there are all kinds of conventions and laws which help companies to do this. The overall conclusion is when it comes to the business environment initiatives are good, but the best way to get businesses to comply with things is to introduce legal sanctions. I will take the example of the Integrity Pact here in Latvia. We want it to make clear that things have to be done in a specific way, and by doing things in a specific way, those who do them will understand why they are doing so. This is not a gentle approach. It will take some time before people understand. I think that these two frameworks are equally important – the big picture and the values, and someone sitting on stage as a forceful minority, establishing unwritten daily rules of conduct and taking care of their legal implementation and framework. This is something of a chicken-and-egg issue in many ways. There's no point in discussing which came first, we have to take care of both of them in different environments.

Tomorrow we will be hearing from representatives of the state. During one of our breaks, a radio journalist came up to me and said, "You have business here, and they're doing the bribing. Why don't you have the other side – those who are taking the bribes? They should be sitting here and hearing what the problems are." I explained that this is how businesses look at life. There is the idea that all problems come from state institutions, that businesses are not responsible for anything. Here we came together and discussed what businesses can do. Tomorrow we'll look at the initiatives of certain state institutions which are trying to be good partners for business. I don't think that we'll find a clear answer as to where we should go, but at least I see a few seeds growing in the ground. I'm still ready to work on the non-existent Nordic-Baltic dialogue. Along with Atis Zakatistovs, I can say that I don't care where people come from as long as we can talk about the same values, if we can build a bridge from Mažeikī to Stockholm to Helsinki. We should use any opportunity for creating islands of integrity. I see such islands, even in the mud puddle of business. I am happy to be realistic and idealistic at the same time. ●

## **There are different reasons why companies talk about business ethics, but they have common expectations – they want people to take responsibility.**

hope that we are moving toward a better situation.

### **Tarmu Tammerk, Transparency International Estonia**

When it comes to public discourse about corruption in Estonia, there is a lot of talk about political corruption, about corruption among the Traffic Police. When it comes to corruption in business, the business community keeps its collective mouth shut. There were very serious cases recently in which prominent Estonian businesspeople were involved in very strange and shady situations, and their peers in the business community chose not to comment at all. I think that a lot of things have to be done in Estonia in order to get the business community itself to address these issues. Perceptions are one thing, the other thing is what's really going on. In the business community, things have not developed as far as they should do, given the silence that prevails.

### **Monty Åkesson, Ernst & Young**

I'm sitting here and thinking about what's happening in Sweden, where

some activities are not tax deductible, and that includes bribery, even if it is done abroad. Atis Zakatistovs talked about the small things, but I think that societies need frameworks and rules, and then businesses will follow them, too.

### **Baiba Rubess, Statoil Latvija**

Lenin, the famous 20<sup>th</sup> century socialist, claimed that a well-organised minority can always vanquish the majority. I must say with reference to Atis Zakatistovs that "society" is a really big word, one that cannot ever be grasped. Small minorities always bring in the next individuals, the next small cells, just as Lenin said. Maybe we can find a way to take all of these small initiatives and to build up Woody Guthrie's famous movement in Alice's restaurant. I would like to thank you for bearing with me all afternoon as I have tried to guide you through the topics of the day and to close the day with certainty.

### **Inese Voika, Transparency International Latvia**

We have been summarising everything that can be summarised. I think that this is



# Integrity Pact in Practice in Latvia (Reception)



**Mr. Roberts Putnis,**  
chairperson, *Transparency  
International Latvia*



If we talk about issues of business ethics – and we'll be doing that tomorrow, too – then the Baltic-Nordic dialogue is a good context for talking about these matters. I would like to thank you on behalf of Inese Voika, who is enjoying this evening together with us. She made a fundamental investment in the content of this event, she has shaped co-operation between Baltic and Nordic TI chapters, and that is a process that is more than one year old. This is the moment to say thanks to my colleagues from Sweden, Denmark, Finland, Norway, Lithuania and Estonia. Thank you for being here. Thanks, too, to colleagues from the *TI secretariat* who are here, who made sure that the conference would happen, who have helped us to strengthen co-operation.

My greatest thanks must go to a global company which really ensured that we can come together – that is the German software company *SAP*. We are very pleased to say on behalf of *TI Latvia* that we thank our guests for helping us from the sidelines, helping us, as an NGO, to stand at the same level as business representatives from the Baltic States and the Nordic countries, to launch a discussion of the environment in which we live together, of how to make that environment better.

The reason why our guest of honour tonight is the Latvian culture minister, Helēna Demakova, is that over the last seven years, *TI Latvia* has worked not just with NGOs, but also with government institutions, political parties and political forces which want to work seriously on the fight against corruption. The foundations for our collaboration with the Ministry of Culture are very serious – I refer to a far-reaching agreement on the way in which we want to protect three very important cultural projects against corruption. These are projects which will become symbols of Latvia and a centre for the cultural life of this country in the future. These are the Latvian National Library, a new national concert hall, and a new museum for contemporary art. These are institutions which Latvia does not have at this time, and the public at large have agreed that they are a necessary component for the growth of this country. Helēna Demakova and her ministry have signed a contract with us, thus making it perfectly clear that there will be no room in these projects for corruption. I would therefore like to ask the minister to take the floor, to tell us why she believes this, to talk about where we are going together. I wish you a nice evening!●



**Ms. Helēna Demakova,  
Minister of Culture,  
Latvia**

Excellencies, ladies and gentlemen, Mr Putnis, Ms Voika. This is a very serious evening, but I will take advantage of the fact that I am the minister of culture, and I will thank the wonderful musicians who are entertaining us tonight.

The second retreat from my written speech is an SMS message which I just received from my state secretary Daniels Pavļuts, he has asked me to greet Mr Putnis and Ms Voika. Sadly, half of my ministry is still at work at this hour because of the massive amount of work that we have to do.

To return to this serious evening, I have to say that the invitation to come and say a few words to this audience caused less surprise than pride in my heart. I am proud that the aim of not only operating in the existing political environment, but also of changing it – this aim brings with it not just suspicious glances, but also an ability to speak publicly at this conference. Why is that? That question was posed to me by politicians and friends after the Ministry of Culture and the *New Three Brothers* agency signed a co-operation agreement with *TI Latvia*. Aren't the all-seeing mass media enough? The media could scrupulously monitor the project to build the library, concert hall and museum. They could point out shortcomings, just as if we were on opposite sides in a legal battle.

I have been told that if *TI Latvia* is permitted to come so close to the epicentre of events, if full transparency is established, then that will only increase the amount of information that can be criticised in the public arena. We have a limited amount of time here, and I will not tickle your fancy with all of the conspiracy theories related to spiders and flies that I have recently had to hear. I can only conclude that these people have not understood that this contract is advantageous to me. Politicians cannot oversee their entire administrative system, no matter how hard they try. Politicians cannot know about the secret or open influence of business and political groups to which the administration suborns itself, or at least those it encounters. The difference between true corruption and seeming corruption is something which politicians must understand. In an ideal system of governance, a minister chooses one of the solutions to a problem that is proposed by the Civil Service. That is the point at which the political force which is represented by the minister produces its own expert analysis, and if the minister finds herself in a zone of various informational influence, she must take a decision which is immediately perceived as the minister's own proposal. It is then, necessarily, subject to a critical review on the part of the public. By speaking of the public, I refer here to the media, NGOs and the public at large.

When that is the process, the public receives information about decisions that have already been taken, and any negative ideas are applied to the political responsibility of the minister. The agreement with *TI Latvia* has allowed me to mess up this system. The public are represented by *TI Latvia* in the preparation and taking of all decisions, and that allows me to reduce the weight of my political responsibility. Watchdogs have a one-on-one relationship with the property which they are guarding. Possible attacks against public property as a result



of relationships between political and business interests can be identified in a timely way, and I can be warned of the consequences that will occur if I yield before these pressures. From that point on, it is a matter of my political responsibility.

Let me explain what I mean when I talk about political responsibility. My point is to say that I must do everything possible to ensure that these three projects, their administration, and all relevant procurement procedures are open, controlled and justified. Interpretation of the norms of the law must be directed as much as possible toward the principles of good governance. *TI Latvia* has already seen the draft agreement with the international company *Hill International*, which will design the technical blueprints for the library building. The law says that this contract is confidential at this stage of the negotiations. In arranging to work with *TI Latvia*, however, we agreed with *Hill International* that it would see the offer that has been made, and just today *Hill International* sent me notification that it has agreed to *TI Latvia's* involvement. We will be submitting the proposal to *TI Latvia* for its analysis. We are eagerly awaiting this expert analysis. Mr Putnis is a guest at the weekly meetings of the *New Three Brothers* agency, where we plan our work. He can take an in-depth look at this work and offer his assessment in the public space. In the best situation he is something of an arbitration judge in the various kinds of political debates which, sadly, we often encounter in this country.

Ladies and gentlemen, the library, concert hall and museum for contemporary art are very light projects, and light projects cannot be implemented with dark resources. A moral goal does not justify amoral action that is performed on behalf of that goal. That should be our overall ethical position. *TI Latvia* is a bobber which allows us to see whether a politician has been caught on the hook. When the bobber is above water and calm, then we are talking about preventive observations. When the bobber disappears below the water, then those who are evil must be scared, because the activities which they would like to keep in the dark depths of the water, among the water grasses, molluscs and hungry fish are instead brought into the light. *TI Latvia* is a ray of light which shines into the depths. This is not just a metaphor – I'll get to the metaphor in a second.

What's interesting is that the National Library is known as the "castle of light", and this is a metaphor which has been accepted by most people in Latvia, not just ethnic Latvians. To our foreign guests I wish to stress this – the metaphor of the "castle of light" is supported by 67% of the entire population, both Latvians and non-Latvians. Latvian folklore tells us that the castle of light will rise from the dark waters and stretch toward the light of the sun.

Enough with the metaphors – let the poets deal with them. I would like to take advantage of this chance to tell you the same things that I have told the public, the media, politicians and historians. We are fully ready to carry out this co-operation agreement with *TI Latvia*, to accept all procedures, recommendations and norms so as to ensure unprecedented openness in an unprecedented cultural project here in Latvia. These projects are the road to a better society, just as the rule of law is the road toward morality. I am proud that it is specifically in the context of the library, concert hall and contemporary art museum that this co-operation agreement has been concluded and, for the first time in Latvia's history, is being implemented. Thank you.

#### **Roberts Putnis, chairperson, *Transparency International Latvia***

Thank you, dear friends, thank you, madam minister. I can add that in signing the agreement, *TI Latvia* promised to do everything possible to protect these projects against any suspicion of corruption, let alone corruption itself. ●



# Coalition to Promote Business Integrity

**Mr. Rytis Jouzapavičius,**  
**executive director,**  
**Transparency International**  
**Lithuania**



Let us begin. I understand why people are gathering for this morning session slowly – it's not an easy job to fight corruption. We all need our strength, and I guess we will find some roots for strength from today's speakers and discussions.

Let me warm you up with a few reminiscences from Lithuania. We prepared a map of corruption in Lithuania which shows that Lithuanian companies pay LTL 1.3 billion in bribes each year. The Lithuanian state collects LTL 1.17 billion in profit taxes, so apparently we pay more in bribes than in profit taxes. I have to amend these numbers, however, because Giedrus Karsokas from *Mazeiku Nafta* – the huge oil company in Lithuania – says that it doesn't pay bribes at all. So we have to subtract this big portion of GDP which *Mazeiku Nafta* provides, and the overall sum of bribes will be smaller.

When I talk to people about these numbers, they say that these are big numbers, that there must be some mistakes in our calculations. There is other evidence of corruption, too – just conversations with people. A big pharmaceutical firm was recently complaining to anti-corruption NGOs that when they went to Parliament to talk about regulations concerning the pharmaceutical industry, one of the ruling parties hinted that a company can pay between 10% and 30% of turnover to improve regulations. The company responded that this would be an excessive bribe.

Then, a few weeks ago, we attended a conference of Lithuanian industrialists. One of the leaders asked rhetorically whether we have money to pay bribes, and then he answered in the negative, because too much was being demanded. From my conversations with Lithuanian businesses, I understood that only the strongest ones can withstand the temptation of engaging in a game which others are playing. In Lithuania, we're looking for agents of change so as to strengthen this movement among businesspeople, we want them to speak up against corruption and in favour of business integrity. I hope that today's discussion will contribute toward a better understanding of what can be the roots for integrity. ●

# Political Will: Key Element in Reducing Corruption

Mr. Ken-Marti Uaher,  
member of Parliament,  
former minister of justice,  
Estonia



Ladies and gentlemen, it is a great honour to be with you here in Latvia today. I hope that you had a very interesting dialogue yesterday. I would like to present the viewpoint of a politician and explain what we have done in Estonia to fight against corruption – the measures that we have undertaken to achieve something real.

At the moment, I am a member of Parliament and of its Legal Committee. I served as justice minister for two years, from 2003 until March 2005. I have been in politics for a total of four years.

My presentation is structured into three parts. First, I will talk about the problem and the level of corruption in Estonia. Second, I will present my personal opinion about the need to fight against corruption at the state level and in the country as such. Third, I would like to present a small overview of our anti-corruption strategy, “The Honest State.” This is a collection of countermeasures which we approved at the beginning of 2004 and which we are implementing at this time.

about the real situation with corruption in Estonia. Every fourth citizen of Estonia claims that a bribe has been demanded from him or her in connection with public services. Every fourth businessperson has been asked for a bribe in connection with public services, as well. One-quarter of public sector officials claim to have been offered bribes, as well.

If we go into this issue a bit more deeply, then what are the proportions among those types of corruption which are most “popular”? 40% of respondents say that the most “popular” form of corruption is presenting a gift to an official in the medical sector, etc. This is a petty form of corruption, and often it is hard even to see it as a corrupt situation. Another 40% of people talked about acquaintanceships among government officials as a form of corruption. Acquaintanceship can help in speeding up bureaucratic procedures. Then there’s the “you scratch my back, I’ll scratch yours” approach – the official provides the services if you offer him or her a favour.

**Every fourth citizen of Estonia claims that a bribe has been demanded from him or her in connection with public services. Every fourth businessperson says the same. One-quarter of public sector officials claim to have been offered bribes.**

Let me first speak about the TI Corruption Perception Index and Estonia’s ranking on it. Our position has been fairly similar during the period between 2000 and 2006. I should note that the number of countries surveyed by TI has grown during this period. Estonia has more or less been in 30<sup>th</sup> place on the list. Between 2000 and 2003, the situation gradually deteriorated, but it has been a straight line since 2003. Just one month ago, the new index was published, and Estonia did better. The index tells us that Estonia is the least corrupt country among the EU’s new member states. We even do better than some of the old EU member states – Italy and Greece, for instance.

We have to say, however, that our position in comparison to other EU countries (the Scandinavians, for instance) is far from satisfactory. In December 2004 we conducted a very thorough survey

Another 25% of respondents spoke of situations in which a government official orders services or products from a company where he or she has a relative or partner.

A study in 2001 showed that between 83 and 85% of the Estonian population had never personally encountered corruption. The situation had improved significantly – in 1998, the number was only 64%. At this point we can conclude that around 15% of Estonians have been involved in some sort of corruption, these are people who claim that they have given a bribe.

I think that in addition to the annual TI Corruption Perception index, this number is the best indicator of corruption in society. I think that we have accomplished quite a bit if the percentage of people who have faced corruption personally has decreased.





On the basis of my own experience, I can mention three main things that are needed in public services if there is to be a successful fight against corruption. First, there is the issue of political will, and in many cases that also means resources. It means really emphasising specific themes. The second thing is responsibility and management. Third, there must be a really holistic approach and a measurable strategy, because corruption is a really complicated matter. It is not possible to solve it with just one attack. Many attacks, many measures are needed to achieve anything.

Political will is the driving engine for many processes if they are to be successful, and, as I said, resources are the main manifestation of political will. When I entered politics, I saw that many big words are used without any resources or efforts, and in that case, nothing much changes. During the two years that I served as minister of justice and was responsible for the fight against corruption, we began with reforms in the prosecutor's office, and we doubled the budget of prosecutors. Fully 95% of the budget goes to salaries and this is a good tool to motivate young lawyers and leaders to fight against criminality, including the white-collar crime that is corruption. We appointed some prosecutors to work exclusively on corruption issues. I have to admit, however, that there is still a lack of political will in the Interior Ministry, which is responsible for the police and for motivated and skilled investigators. The

### **Three elements to avoid corruption in public procurements:**

- ➔ **political will;**
- ➔ **responsibility and management;**
- ➔ **a holistic approach - a measurable strategy and a person in duty for it.**

situation will improve in the coming years, as we have instituted the aforementioned changes.

It is my very strong belief that in a small country, it is hard to be successful in all spheres of criminality, and we definitely have to have priorities. In 2003, we focused on two fields – trafficking and crimes of corruption. The head of the Ministry of Justice was appointed head of a ministerial committee against corruption, and he was declared to be responsible for working out the implementation of an anti-corruption strategy. This was a holistic approach. We prepared our work very thoroughly, we conducted scientific analysis, and we gathered together the best experts from Estonia and abroad. In January 2004, we adopted an anti-corruption strategy called “Honest State.” The strategy includes 21 anti-corruption measures to be implemented between 2004 and 2007, 55 to 60% of the strategy was implemented during the first 18 months, when I was still the minister. The process is continuing.

I would like to introduce you with the steps that we have taken in the context of our anti-corruption activities. There were

two objectives to our strategy – to curtail the number of cases and corruption and to increase intolerance toward corruption among the public at large, as well as, secondly, to make it more likely that corrupt people will be punished. There are two kinds of measures in this strategy – ones which are aimed at preventing corruption, as well as ones which are focused on investigating the cases of corruption. In the Baltic States and elsewhere in Eastern Europe, these can be very abstract concepts, while in everyday life there are many obstacles.

I want to say a few words about the second measure – investigating cases of corruption. We are devoting a great deal of attention to detecting corruption. Corruption is something of a white fence that is painted by workers in a very complicated process. Corrupt persons think about the risks which they face much more carefully than other criminals do. If the state can detect corruption and punish the offenders, that will be a preventive process. It is important to define capacities (prosecutors and police investigators) if we are to detect a large quantity of corruption.

One way to prevent corruption is to set

up a government office with auditing and preventive functions. In Estonia, we didn't have a government institution which audits local governments, but we had to admit that local governments were one of our biggest problems. Central agencies in Estonia function pretty successfully in terms of detecting and preventing corruption, but local governments have been something of a vacuum in this regard. We have taken quite a few steps toward improvements in this area. Many experts have said that our local governments present a major risk, and so we began by turning over power to a government office which audits local governments. It is an independent institution, according to the Estonian constitution. It audits local and central agencies through risk analysis. Since 2005, the institution has had the power to engage in analysis which determines whether local governments face major risks in various areas.

Second, every official and politician in Estonia must declare economic interests – all assets and all costs. This has to be done annually, and this has been a bureaucratic, but fairly effective process. Checks of these declarations have mostly discovered problems with formalities, which has not been very important in the fight against corruption. We have proposed specific changes. Beginning in 2006, the declarations will be submitted electronically, which will make it easier to process the data and to find instances in which politicians have experienced any major changes in their situation over the course of the years. Second, we're appointing a central authority to analyse the declarations. Third, the declarations will be modernised, and the amount of necessary data will be increased. The aim in all of this is to find major changes in the status of our government officials and

politicians. We also offer training on official and specific codes of ethics. The training is a practical process, we conduct case studies about officials and the things that they must do in specific situations. We're going to establish an Ethics Council for the public sector, and its clear goal will be to ensure that the code of ethics for public servants is implemented in real life.

Another very important thing is raising awareness. The definition of corruption is very weak if it is not accompanied by knowledge and clear information. When I was the justice minister, we launched a Web page which contains practical information about corruption in Estonia. It's available in Russian, too, as 25% of our residents are Russian speakers. The address for the Web page is [www.korruptsioon.ee](http://www.korruptsioon.ee). Our strategy also includes the distribution of informational materials, as well as various anti-corruption campaigns.

To go back to the process of investigations, I can tell you that we have 50 police prosecutors and investigators who specialise in corruption offences. We have special anti-corruption forces in each of our administrative districts. We have an anti-corruption hotline for the public, and we have amended laws as needed. For instance, we have introduced whistleblower protections which guarantee anonymity to people who provide information that allows us to detect corruption.

When it comes to results, I suppose that our best results are still in our future. This year 20 customs officials were prosecuted and sent to jail. This happened during the course of six months, when a very major process of organised crime was detected on Estonia's southern border. We also discovered and accused 25 traffic police

officers of bribery in the autumn of this year. Prosecutors worked together with the secret police on this. Investigations are continuing in many local municipalities. Just two years ago, we didn't even have any investigators to start proceedings!

The very latest results relate to the TI Index. In 2003, Estonia was in 33<sup>rd</sup> place in the world. The number of countries to which the CPI refers increases all the time, but in 2004 Estonia was in 24<sup>th</sup> place. This means that international experts and our own people have understood that we are really implementing very concrete and holistic measures to fight against this complicated problem. Thank you for your attention!

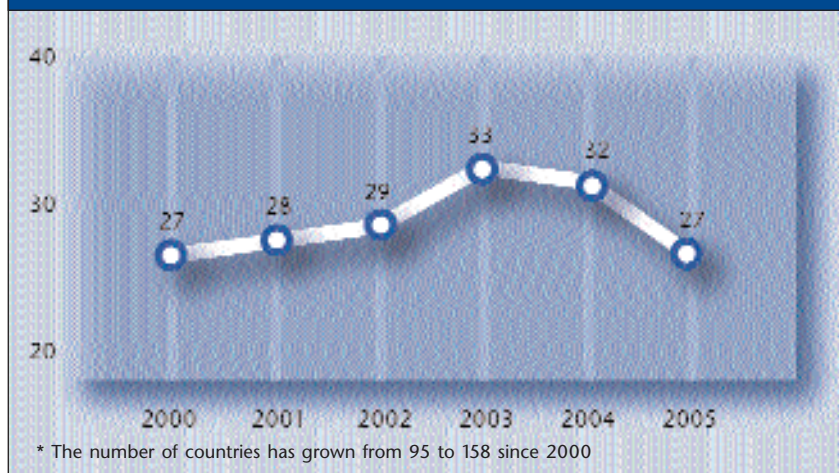
#### **Monty Åkesson, Ernst & Young**

The chairman of *TI Estonia* was here yesterday, but it seems that he is not here today. He said something very surprising – that we are discussing citizens and companies in relation to state or local authorities very heavily, but we are not discussing business-to-business ethical behaviour. Who is responsible for this – governments, other levels of society, or perhaps businesses themselves? Are there problems in the global conduct of businesses which are not discussed in Estonia?

#### **Ken-Marti Vaher, MP, Estonia**

I think that we have a lot of room for development in Estonia. We have heard of a major scandal in Estonia this autumn which related to corruption in business. A senior manager of one of our banks retired and went to work for one of Estonia's shipping companies – one which had received loans from the same bank for many years. He didn't really work there. He just received a large share in a company which is worth hundreds of millions of crowns. This situation created a lot of debate about business ethics and corruption in business. Of course, this is also a matter for the state authorities. If there is corruption, it can be detected by investigators and prosecutors, it has to be resolved. It is also a matter for businesses themselves, as well as for the local branch of TI and the relevant business associations. I have participated in many conferences which have been conducted by businesses themselves. Many things can be done. It is even harder to deal with corruption in business than it is to deal with public sector corruption. Estonia is a young country, and many of the same problems exist in Estonia as exist in the old EU member states. I think that this is a joint effort for many institutions. ●

#### **Estonia's place in Corruption Perception Index**



# Independent Anti-Corruption Agencies Work in Countering Corruption in Private Sector

Mr. Alvis Vilks,  
deputy chairman, *Latvian  
Corruption Prevention and  
Combating Bureau*



I represent the Latvian Corruption Prevention and Combating Bureau (KNAB). The people of Latvia are well aware of what this institution is, but let me briefly tell our foreign guests what exactly we do.

The KNAB was established three years ago, and it is our duty to fight against corruption and to observe corruption-related issues in the public sphere. People in Latvia had focused attention on the problem of corruption for a long time, and the fight against public sector corruption was defined as a priority. This means that preventing corruption in the private sector – that is an issue that has been pushed on the back burner. It is very good that this conference is being held in Latvia, I hope that it will help to attract greater attention on the part of our government institutions.

Like the previous speaker, I will speak more about corruption in the public sector, but I will try to point out some areas in which the public sector interlinks with the private sector. I suppose that I

sector. The victims in this case are the state and the people of Latvia, or perhaps private companies, their interests, and the overall business environment. They receive information of this kind very seldom.

If we speak of corruption in the private sector, we must talk about the individual behaviour of each and every one of us. In private conversations with businesspeople, I often hear that various sectors of activity in Latvia are very corrupt, that we all know that payments have to be made if any work is to be accomplished at all. I always ask such people why they don't do anything to improve the situation. Even if government institutions receive timely information that does not always mean that the information can be turned into proper evidence for the purposes of a trial. Greater openness in society, more public education about anti-corruption issues, greater trust in the institutions of government – these are very important in this regard.

The previous speaker also mentioned political will as a very important issue in the fight against corruption, and I believe

**To what extent are people ready to oppose their own interests or the interests of their bosses so as to attract the attention of law enforcement institutions to the problems of corruption? Each person is responsible for his conduct.**

don't have to explain to everyone that this particular area is very risky when it comes to corruption. Here we talk about things such as local government procurement, the issuing of various certificates and licenses by government institutions, as well as leasing out of state and local government properties. These are all issues here in Latvia.

First of all, why is it so hard to discover and investigate cases of bribery? We have discussed this with specialists, who point out that there are two sides to every bribe – the person who gives the bribe, the person who takes it. If both sides are happy with the situation, then very seldom does any third party receive information about what has happened. This relates to the state sector and the relevant law enforcement institutions and to the private

that this is true both in the public and in the private sector. The relevant institutions which have appropriate authority and all of the necessary resources are very important, of course, but the situation also depends on every member of society. To what extent are people ready to oppose their own interests or the interests of their bosses so as to attract the attention of law enforcement institutions to the problems which exist, to make sure that the problem is resolved and that there are results?

If we speak about the monitoring of corruption, then there are several parallels between the private and public sector. The operations of the legislature are very important to both areas – the drafting of laws, consideration of laws and approval of laws. This is a fairly open area of activity



in Latvia, it is monitored by the mass media and by NGOs, but the fact is that businesses could be more active in participating in the process, in lobbying on behalf of their own interests. The KNAB has established an Advisory Board with which we regularly discuss the things that we are doing, we seek to receive consultations from members of this organisation. The Council has representatives from a number of public organisations, and this is a very good form of co-operation. Through these discussions we can learn about their interests, about how we can help them.

Latvia's government has a programme to prevent and combat corruption, and the focus therein is on preventing corruption. More specifically the point is to ensure internal controls. That is another area in which the public and private sector could work together by introducing universal principles. The same applies to greater transparency in both sectors – that is one of the most important factors in the fight against corruption.

I will stop at this point, because I represent the state sector and the issues of preventing and combating corruption in the public sector, but I do want to stress once again that we need to enhance public trust in government institutions,

focus attention on educating the public, and ensure transparency. Only then will we be able to work more on preventing than on combating corruption in the public and the private sector in Latvia.

**Gintautas Dirgela,**  
**JT International Baltics**

We know that government institutions in Latvia are very reluctant to engage in any dialogue with private companies. They suggest that the dialogue should be between state institutions and various associations. This is not always possible, because companies and associations might have different interests or approaches to a concrete situation or challenge. At the same time, however, there are no official lobbying institutions in Latvia. Private companies are left with a very bitter choice – either we engage in unofficial lobbying, or we deal with the fact that our ideas are not heard at government institutions. What would be your reaction to this?

**Alvis Vilks,**  
**Latvian Corruption Prevention**  
**and Combating Bureau**

It's not all that bad in Latvia, because we have established fairly extensive principles of transparency in the legislative

process, and that applies both to Parliament and to the government. Latvia has not, however, devoted enough attention to legal regulations which apply to the issue of lobbying. There are no rules in Latvia about the way in which businesses can express and defend their interests at the public level. The KNAB has pointed to this issue, and we have established a working group which is developing a concept on the normative acts that should be approved, the things that should be done so as to legalise the influence which businesses have on the political process.

Supervision of political party financing is another function for the KNAB, and we have learned that companies are very interested in donating money to parties so as to pursue their specific goals. This is a very risky situation, however, because it means that companies which have more money can be more certain about achieving favourable decisions than can those with more limited resources. This means that the interests of a certain segment of society are circumscribed. Since last year, however, it has been illegal in Latvia for legal entities to donate money to Latvia's political parties. True, that does not resolve the problem entirely. ●



# Active Business Environment in Support of State Anti-Corruption Efforts

Ms. Ruta Skyrienė,  
executive director,  
*Investors Forum*



Good morning. The two previous presentations made it clear to us that greater business activity is still needed so as to stress the need for ethical behaviour between governments and businesses and in business-to-business relations. I believe that an active business community can create a more ethical and transparent environment in any country.

I will review the things which *the Investors Forum* has done in changing the business environment in Lithuania by being active as a socio-economic partner to the government. I will also talk about how and why we promote corporate social responsibility (CSR) in our country and help to develop it.

*The Investors Forum* is an association of Lithuania's leading foreign investors and was established in June 1999. Today we have 40 members and represent more than 5.5 billion litas in FDI in Lithuania. Our membership criteria are more moral than quantitative in nature.

How do we present our proposals? We have really opened up a dialogue with various governmental institutions. Each week we meet with members of Parliament to present our thoughts and our proposals to the government. In May of this year we organised a forum at which we discussed problems and proposals on how to make Lithuania more competitive, how to improve the business environment for foreign investors and for domestic entrepreneurs. We co-operated with the World Bank, and in the spring of this year it presented us with an investment climate assessment study in which we found many good proposals. Let me offer you a short summary of these.

The principal recommendation in terms of promoting foreign direct investment is that the government must become better at presenting itself and talking about how good the situation in Lithuania is. In this, we can learn from our neighbours in Estonia. We have

**Fair competition develops business and investment environment in the country that leads to higher welfare and competitiveness of the country.**

Our members support the idea of proper and free investments. They believe that a positive investment climate in Lithuania will offer shared benefits to the country, its citizens and its business world. We encourage the integration of internationally accepted best practice. Our members have made investments in Lithuania and all around the world. Our mission is to improve the business environment and investment climate in Lithuania.

How do we operate? We are not a registered lobby, but most of our activities relate to lobbying. We work in a very transparent way, and our organisation does not have any political goals. All of our proposals are focused on the need to have fair competition in the country and to make Lithuania more competitive in Europe and the rest of the world.

found that our economy lacks high-skilled workers, and so we are proposing a shift from quantity to quality in education, we encourage continuous and lifelong learning. We are also increasing competition among universities in order to stress these two issues. We were active during the preparation of Lithuania's part of the Lisbon Agenda. We offered many proposals on how to make the state more competitive and how to finance innovations. We proposed simpler entrance and exit rules. We believe, too, that changes in labour regulations would be a positive factor in terms of promoting FDI in Lithuania. Land usage rules should be simplified so as to decrease the level of bureaucracy and to promote anti-corruption efforts. That is because at the municipal level, there are particularly high risks of



corruption, particularly when it comes to commercial parcels of land and their development.

Our main proposal with respect to the tax system is to put a cap on social security contributions. This would be a way to take away some of the funds of the shadow economy. As of July 1, 2006, the government will reduce the personal income tax, and that, too, will influence the shadow economy. We are talking about the regulatory burden in Lithuania, about governance and corruption. We are the most active business association in Lithuania in promoting the UN Global Compact. In October 2004, we signed a partnership agreement with the UN, and we are still working together. Just last

week, for instance, we signed up for a programme within which we will be promoting CSR. We'll be working with a retail chain in Lithuania to implement CSR in its business strategy, and we will put together a Web page about CSR.

We co-operated with the UNDP and the World Bank in organising a conference last November in Vilnius – the first conference where CSR was presented. No one in Lithuania's state institutions had talked about CSR before, and we found that the Social and Labour Ministry would be the responsible one. We set up an initiative group, and in April of this year, we established a national network of responsible businesses in Lithuania. We had 12 original members,

and this network is in charge of launching the Global Compact. Today we have 40 signatories to the Global Compact, both leading businesses and small companies.

We were also among the organisers of a conference on honesty and integrity in Lithuanian business. We have prepared all of our proposals to the government in a very professional way because we have high-quality specialists among our members. Our main activities are handled within working groups. One is the *Investors Forum's* working group on ethical business. It has actively contributed toward the promotion and interpretation of the concept of ethical business in Lithuania. We have also tried to come up with a definition of ethical business for ourselves. This has to do with respect for our employees, fair treatment of our business partners, social responsibility vis-à-vis the community in which we work, environmental responsibility, and a clear anti-corruption attitude. This all applies to our business relations, as well as to the relationship between business and government.

In terms of our recent plans, we are focusing on areas which the *Investors Forum* considers to be relevant in Estonia at this time:

- Rise awareness about public corruption in Lithuania, mostly in the public sector, with businesses participating by engaging in bribery, by participating in unregistered lobbying activities, and by making use of governmental institutions to ensure unfair competition;
- The diminishing but still significant practice of paying under-the-table salaries to employees so as to avoid payment of taxes and social benefits;
- Non-compliance with the spirit of contractual arrangements, thus treating business partners unfairly – for a long time we have supported programmes and initiatives which seek to encourage ethical business, concepts of education, and work with associated entities and partners. This year and next year we plan to hold an annual conference and to work with Junior Achievement in this regard. We feel that the university level is too late to begin an economic education, so we have agreed to educate teachers. We will also organise a competition for high school students who will be writing essays on the concept of business ethics;
- Any announcements of bribe-free zones;
- Work with students;
- Support for the state's efforts to ratify the UN Anti-Corruption Convention.

Thank you!●

# Panel Discussion: “Partnership of State and Business in Providing for a Bribery-Free Environment”



**Jens Berthelsen,**  
**Transparency International Denmark**

Welcome to the last session of this conference. For TI, the guiding principle from the very beginning has been to propose and search for co-operation among companies and businesses, as well as between the civil society and business. This last session is dedicated to this co-operation – the so-called “holistic approach” between business and government. One thing that we haven’t addressed so far is the fact that businesses often lose orders because of corruption, and this is an area in which we could ask for much greater activities on the part of the state to prevent corruption. Our first speaker this morning will be Harry Veiko Piela from Finland.

**Harry Veiko Piela,**  
**Sybase Finland**

Ladies and gentlemen, I actually work for four different companies in the Baltic

countries. Not all of these companies pay me for my work. I was one of the founders of *TI Finland*. I am not here to tell you how you should live, to tell you whether you should or should not engage in corruption.

My goal in life is to engage in business. To engage in business, you have to win in competition. This means that I always demand fair business. If competition is fair, then it is clear what we get from business. I have had real experience with real corruption in each and every one of the Baltic countries. The process differs from country to country because of culture and other aspects.

In the beginning of the 1990s, Estonia was something of a destination for Finnish cowboys. Latvia was still seen as a Russian kind of place. One of the most important things that happened was that Nordic businesses began to take over such sexy areas of business as telecommunications and banking. This was a big change.

Today, the most confusing thing for me is that those projects which are most strictly controlled the ones which have the largest number of people working on them – they are also the most corrupt projects! I’m referring to EU-funded projects, and I cannot understand this problem. To be sure, these are very small markets, with few decision makers. The line between good participants and bad ones is very important here – it’s not hard at all to limit participation in public bids for tender. In the IT world, it’s easy to say who will win even before the documents are prepared. The roots of this situation are difficult to find. At our organisation, however, we are prepared to lose business if that means that we don’t have to participate in these dirty deeds.

Let me repeat – I’m not here to teach you how to live. I want to do business, to win, to participate, and to compete at all levels on the basis of fair criteria.



**Monty Åkesson,  
Ernst & Young**

When I agreed to come here, I had some discussions about what I would say once I got here. I said that I would talk about what I've done at *Ernst & Young*, and yesterday that's exactly what I did. Then I was asked to stick around and to talk some more, because I've been involved in the anti-corruption movement here in Latvia. Like Mr Piela said, we're not here to tell you what to do, we just want to do business.

When we established the Council of Foreign Investors in Latvia in 1999, it became quite clear quite quickly that many international investors in Latvia were concerned about transparency. They felt that they were losing lots of opportunities. Very high on our agenda was dialogue with the government so as to create an anti-corruption movement. Between 1999 and 2001, the eminent chairman of *Storaenso* came to Latvia to talk with other investors about their future. We debated the matter with three prime ministers before the KNAB was finally established. It was very important to us to have an independent institution in Latvia, one that is not in the pocket of the prime minister, one that is as independent as possible. We hope that the KNAB will develop in Latvia and become a force in prosecuting and jailing those who have behaved badly.

All of this has been going on for five years. Our Investors Council doesn't have a committee on ethics, but we do have a dialogue with the KNAB, our people are sitting on its Advisory Board as members. I think that we have done our fair share of the work in this regard.

Many people in Latvia still feel that things are not moving in the right direction. Five years ago we initiated a project that you heard about yesterday – "Better Business Ethics in Latvia." Yesterday Atis Zakatistovs criticised us for entrepreneurs having big words and big plans. We initiated discussion groups, but we found out very quickly that this was not a project for foreign investors, it was one for Latvians, one that had to be based on the Latvian Chamber of Commerce. This is an example of how an organisation in industry can recognise a problem and deal with it. That project is finished now. My question, however, is this: What is society at large doing about all of this?

The headmaster of the Stockholm School of Economics has been there for seven years now, and that school has a course on business ethics. When we meet students after one year of studies, their ideas about doing business are more or less in place, because they've been

growing up in families which engage in unethical behaviour in one regard or another. How can we change the attitudes of young students if their parents and friends have such an influence on them?

**Rolf Jaeger,  
German Embassy in Latvia**

I would like to stress that I used to run a project on social dialogue, so I know a bit about this environment. We've been talking about small bribes for doctors, for instance, and this is an aspect of unethical education. When I worked in Greece in the early 1980s, the situation was the same – everyone passed over an envelope under the table. In Latvia, my experience is that if you try to encourage people not to take bribes, then you also have to demonstrate the resulting benefits to them. Always think about this when you implement further ideas.

**Miklos Marschall,  
Transparency International  
Secretariat**

The fight against corruption must very much be linked to major socio-economic reforms. A simple reason why doctors are corrupt in Hungary and all of the transition countries is that the system has not changed. There has been no clear funding for a health insurance system, for instance. This is not so much an issue of ethics, because doctors hate the system, but that is the situation. Salaries are low. There is no third-party insurance. I think that a simple answer to the question is to implement reforms and to produce new incentives.

**Rytis Jouzapavičius,  
Transparency International Lithuania**

Last year we ran a TV ad for two weeks which focused on corruption in the health care sector in Lithuania. The audience saw a patient going in for surgery and then another one coming with a sum of money. The first patient was pushed off the surgery table, and the one with the money was put on the table. Then a third person came with a bag full of cash, and the situation repeated itself. After this campaign, the health care sector recognised that every second doctor in Lithuania or so receives these unofficial payments.

After the campaign we received a letter from a medical association which asked us how we dared to moralise about this issue. We said that we were not moralising, we were illustrating the situation. The medical association told us that doctors need money to put shoes on the feet of their children. I learned that the unofficial

income of medical personnel is equal to between one-third and three times their official salary. This is the system. People hate the system, but the fact is that the government is not willing to change the system. The fact is that right now Lithuanians are allowed to pay LTL 125 to doctors, this is a legalised bribe. A similar system exists in Russia.

**Inese Voika,  
Transparency International Latvia**

Just out of curiosity, where is this stated, and how is it worded?

**Rytis Jouzapavičius,  
Transparency International Lithuania**

Article 170 of the Civil Code says that donations are illegal to anyone except doctors. In their case, the donation is LTL 125, which is equivalent to the one-month survival minimum. In Russia, it is equal to five minimum survival levels, but the sum is approximately the same. In the morning I pass over an envelope, at lunch I do the same, and it is all legal. Everyone knows this, everyone pays. Cancer patients make these "donations." The government is reluctant to admit that this is an illegal process, that reforms are needed. This is not a matter of moralising, we need reforms.

**Monty Åkesson,  
Ernst & Young**

Social reforms take a long time to implement. If we're talking about bribery, how do we work with young people who become managers in business? They have to live with this awareness – in some areas of the public sector; you need to pay to get extra services. If you recognise the problem, then you can accept a transition period.

When it comes to transparency in the procurement process for a new library in Latvia, bribes are not going to be paid to officials. When a new business is launched, however, should the situation be different? At the Stockholm School of Economics, students say that things take a lot of time, in part because there are no official price lists. If you pay too little, you get bad services. If you pay too much, the doctor will scorn you. My perception is that we can work with the government in all three countries. This is an area for positive debate and change.

**Inese Voika,  
Transparency International Latvia**

I think that this discussion about health care shows that there are lots of different problems which create corruption. One is a lack of any clarity in the system. Then there are the low salaries of personnel.



Third, there is the belief of people that they must give bribes to doctors.

In the civil society, if you want to change corruption, then you have to implement special measures for each segment that needs to be changed. Structural changes in the health care system or even the way in which hospitals are run and supervised is an area of activity. I am pleased that together with the KNAB, we have been able to move forward with the idea that doctors should be declared public officials, which means that they can officially be considered to be corrupt. These are small things, but one by one they can change the system. Doctors are afraid of being punished.

Your question was about changing society. That takes the most time, it requires vast educational programmes. We are encouraging the KNAB to develop more in the way of educational programmes. It is supposed to work in three directions – combating corruption, preventing corruption and educating people about corruption. The last of these three duties is always forgotten, but now prevention and education have been brought together. Alvis Vilks is responsible for both areas.

The organisations of the civil society can also help in changing the way in which people think. We are changing people's views by talking about corruption, by refusing to let people ignore them. My main point is that we are not talking about what the system lacks or about what people think. The point is different – what can businesses, doctors and professional units do? There are many different problems in society, and everyone has a part to play. It is in my interests to get businesses to talk about these issues, too.

**Jens Berthelsen,**  
**Transparency International Denmark**

Let's get back on track with this discussion – doctors are not businesses. Let's talk about business and government in this area.

**Rytis Jouzapavičius,**  
**Transparency International Lithuania**

TI Lithuania was recently approached by an association of pharmaceutical companies which told us that for many years the companies were sort of corrupt. They paid doctors or sponsored their attendance at conferences just to sell their medications. The companies told us that they wanted to change. They had tried to stop providing all of the benefits to the doctors, and the doctors asked them whether they wanted doctors not to prescribe their drugs any longer.

Representatives of the companies told us that it was a hard thing to do, but even if sales are declining a bit, they are determined to behave ethically. That is a correlation between doctors and businesses.

**Jens Berthelsen,**  
**Transparency International Denmark**

If we are talking about the pharmaceutical industry, then the accession of the Baltic countries to the EU means that they have to comply with the EU directive on the marketing of pharmaceuticals, Directive 2001/82. The national authorities have certain obligations when it comes to putting limits on marketing. I am surprised that none of the agencies or governments in these three countries has been working on implementation of this directive, but you can have a good sense of what's going to happen, because the directive is very clear. Agencies and governments are apparently waiting for a letter from the European Commission. You haven't been implementing the directives in full compliance with their wording.

In Sweden, for instance, pharmaceutical firms are not even allowed to pay the transportation expenses of doctors they are not allowed to meet doctors one-on-one. That is a consequence of the directive. The EU has other instruments which local governments can use in this area.

That brings me to the next thing. I conducted a survey about the implementation of the new EU procurement directive, and Articles 44 and 45 specifically. Article 45 makes it mandatory for governments to exclude any company which has been sentenced for corruption from participating in any public tender in the EU. Foreign companies which lose a tender can go directly to the European Commission to complain about this. Article 44, for its part, orders the national authorities to determine whether companies which are bidding in a bid for tenders have efficient control mechanisms in place to prevent fraud and corruption. I think that TI might start to monitor the implementation of this directive.

I can tell you a story about the EU directive, by the way. Business associations managed to water down the first version of the directive, which said that you are excluded from bidding when you have been sentenced by the lowest-level court. The latest version now speaks to the final verdict. The point is, however, that these are instruments which national governments are going to have to implement, and then businesses will have a more level playing field in this area.

**Virginijus Kundrotas,**  
**ISM University of Management**  
**and Economics**

I would like to add a few thoughts on what can be done. First, it has to be a very complex approach, systemic changes are necessary in implementing EU directives. In addition, it is very important to set a positive example. One thing that goes lacking in our societies is the education of young people in the sense that the media only present them with negative examples. Negative scandals always attract the most attention in our newspapers. We don't see any good examples in any systematic way. I think that it is important to show good examples which the younger generations could follow. Right now young people see successful people working in a grey area, these are people who have succeeded because they avoided some of the rules. This is a role for the media to play.

**Örjan Berner,**  
**Transparency International Sweden**

I wanted to refer to Harry Piela's statement. He said that there has been particular corruption in EU-funded projects. I would like to hear more about this in connection to the issues that we have just considered.

**Harry Veiko Piela,**  
**Sybase Finland**

My experience relates to IT projects. As you know, these are large projects, there's a lot of money, lots of opportunities. These are long-term projects, and they begin with the needs of local authorities. The EU has established local offices in the Baltic countries to deal with money. These local offices have a lot of power and money, and they can make many decisions about how to spend the money. When we compete in tenders and ask questions, we get a response in seven days, and we are told that they don't know the answer. When we ask the next time who is in charge, they promise an answer after seven days, and it is the same as the previous one. Sometimes it's very hard to find out how to fill in the forms correctly. We always have the feeling that we are facing unfair competition. The problem is with the local EU offices.

**Monty Åkesson,**  
**Ernst & Young**

I will disagree with you a bit. At Ernst & Young, we worked on the principles of transparency which relate to the EU's structural funds. The EU had an office in Riga, complete with auditors, only until accession, now that office is

closed. Our Investors Council asked why the office was closed down if problems were still in place. This is a Brussels problem now. The people who oversee these processes are in Brussels. I just hope that the Integrity Pact that has been concluded by the Ministry of Culture, *TI Latvia* and the *New Three Brothers* agency will set a good example for Latvian society that this will help to make procurement procedures more transparent.

I have faced similar situations in Sweden, where I worked on procurement issues for 20 years. I helped companies to prepare their bids for public projects. The terms of reference required special software formats, for instance, and we didn't have the right kind of software, so competition was killed before it really began. Here you see how effective lobbying can be when the terms of reference are drawn up. Government and state institutions should carefully monitor this process, and they should perhaps add an additional 2-3% to the overall cost to make it more transparent.

**Miklos Marschall,**  
***Transparency International Secretariat***

Public procurement is a top priority for TI at the global level. We have published minimum standards in this area. In our latest Global Corruption Report, we wrote about corruption in the construction industry and came up with certain recommendations. One was to make sure that the consultants who play an important role in preparing bids adhere to much higher standards.

**Arvid Halvorsen,**  
***Norsk Hydro***

I was wondering how high on the agenda the problem of corruption really is in the Baltic States when it comes to discussions between government organisations and the EU. The EU has many units and instruments for the fight against corruption – competition regulations, the Criminal Code Convention, etc. Perhaps someone from the Baltic countries could answer this question.

**Unknown man**

I can say that the main problem with public procurement is that so many different institutions are involved in it. When the new member states joined the EU, the EU's offices were closed down, the status had changed. The OLAF should be much more dedicated toward the restoration of lost assets. The agency does not have a particular role in public procurement, however. National authorities must implement the relative

directives. In a EU-financed project, it is not the OLAF, but a general director who is responsible for the project and the relevant issues. If the general director doesn't do anything, the OLAF can intervene. TI has pointed this out on a number of occasions, as have business associations – this central organisation within the European Commission is not really promoting better standards in this area.

**Harry Veiko Piela,**  
***Sybase Finland***

I didn't say that there is something specific in Estonia, Latvia and Lithuania. I am only doing business in these three countries, and so I cannot compare the situation here to that in Sweden or any other country. There are problems in Nordic countries, too, but I face the aforementioned problems on a daily basis. I spoke only from my own point of view.

**Unknown man**

A brief comment in response to Miklos. I think that there is a pretty large grey area here. The situation is that governments (including the Swedish government) pay money to consultants who conduct studies in relation to projects that are going to be financed by the EU. Sometimes these consultants are recruited from companies which are well known to the authorities, that is only natural. In that case, however, the recommendations tend to be very close to the kinds of specifications which will be most appropriate for Swedish companies. This is a fairly legitimate way of ending up with a situation which is close to illegitimate.

**Jens Berthelsen,**  
***Transparency International Denmark***

Denmark is probably the EU member state in which the directive has been implemented most rigidly. That is because of the scandal over the building of the big bridge – there was an article in the terms of reference which said that steel had to come from Denmark. This was agreed by a Danish steel mill, a contractor, the government and the trade unions. No one was stupid enough to offer the grant to a foreign company. A French company found out, and there was trouble. The European Commission started to think about the implementation of procurement directives. Not all of the aspects of these directives have been implemented in a legal way. That's the reason why there is still debate about procurement in Denmark.

**Kate Sturgess,**  
***Transparency International Secretariat***

I'd like to add a few words about the structural funds. All of our chapters in the Baltic States are working on a very specific project in terms of improving and making more transparent the procedures which relate to these funds. These are huge sums of money, and the EU's structural funds are driving engines for the development of these countries. If all of this isn't done in a transparent way, then it is not fair. I wish to highlight the fact that TI realises that this is a key issue, one that is linked to procurement in many different ways. One thing that our chapters have realised in doing research on this is that the systems are very different from one country to another, the situation is highly decentralised. The European Commission does not audit the details in each of the countries, it is up to governments to oversee procedures, the flow of money, etc.

**Rytis Jouzapavičius,**  
***Transparency International Lithuania***

I would like to speak about Lithuania's experience in this regard. *TI Lithuania* has been watching the experience of *TI Latvia*, which has won the right to participate in the work of project evaluation committees as an observer. We are lobbying for the right to oversee processes in which ministers and colleagues gather together to talk about projects. We have asked for permission to participate in the evaluation process, we have told politicians that society doesn't always trust them in this regard. The politicians answered that they don't trust their socio-economic partners, either, because those partners might be corrupt. Our colleagues in Latvia have been more successful.

Recently we worked with some of our coalition partners to raise the question of the allocation of EU funds between 2007 and 2013. We learned from our sources that huge sums are to be invested in infrastructure – reconstruction of roads, as opposed to investments in technologies or science. Our socio-economic partners said that this was not fair. We have not even participated in the debate about where the money should go, however, the government has ignored our protests.

How active is the political system in fighting against corruption? There are two different situations. In talking to the rest of the world, politicians say that this is a top priority. When they talk locally, politicians admit that political parties spend two or three times more money than has officially been declared. Vast sums of money are circulating in the political arena, and most of the country's ruling parties have this

problem. Conservative parties claim that they are no longer paying unofficial monies to the media. They say that they have stepped out of the circle. This is difficult to know, because we recently had a corruption scandal involving the media. Certain media outlets attacked the TI chapters in Latvia and Lithuania for allegedly being a part of the “Soros Mafia.” The media took part in this game. I visited someone from the newspaper *Respublika*, and I told her that we were not engaged in any corruption, that we don’t take orders from anyone. This woman tried to get me to say something about her beliefs, she gave positive answers to all of the questions which she had posed. That is the mentality of the media. As Giedrius Karsokas from *Mažeikiu Nafta* has said, we have a corrupt media and corrupt political elite, which makes the situation very difficult. Our aim is to gather together the forces of integrity.

#### **Unknown man**

I’d like to hear the views of Latvians about these various issues. I can think of one scenario which relates to the Integrity Pact. You’ve been given the green light for a specific solution, and you are now linked to it. The solution is contested by another company which claims that the process has not been handled possibly. You are linked to the government, to the public authority that has taken the decision, and together you are accused of mishandling the project. Have you thought about this situation?

#### **Inese Voika, Transparency International Latvia**

We have definitely been in many situations of that sort. As Rytis pointed out, we cannot avoid such things. If someone wants to attack you, there is nothing you can do. Our slogan in our work is that we do not worry if we are criticised justly, but we must do everything possible to avoid being criticised for good reasons. In this respect, it could be dangerous to be too close to the government. Even in the Integrity Pact we are trying to keep our distance, we have made clear what we will and will not do. We are not doing the work of Parliament. The minister is trying to pull us as close to her as possible so as to protect herself, while we are trying to keep the distance. If companies have problems, we are here to convey this fact to the relevant institutions, but not to investigate the situation. We are there as a lighthouse of a kind, we light the way forward. We will all be in deep problems if anyone decides to create a big scandal over acquisitions.

The situation with the library is a bit different, because the minister and other high-ranking officials really want things to work out. When we had a similar project in the past, the political will simply was not there. If there is no political will, if there are just empty words, then you are never protected, and you end up in a mess. But if you don’t take these risks, you will never know. We have faced crisis, but the way you come out of crises is by continuing your work. You can prove that you are trustworthy by doing your next thing differently than the way in which you did something which led to accusations.

#### **Rytis Jouzapavičius, Transparency International Lithuania**

I have to ask whether anyone sees a light at the end of this tunnel. What could be the next steps? Should we start making suggestions about building up business integrity? Before I came to this conference, I talked to a lot of businesspeople and asked whether they really believe in business ethics and integrity. They said that they give bribes when they have to, but they are thinking that they should stop doing so. They said that when they want to stop, there is an easy way to do this – they go to court against those who seek to racketeer them or who demand bribes.

I told the businesspeople that they could join in our coalition of businesses which are promoting business ethics, and they responded by saying that this sounds like a PR trick. Companies which are very correct can simply buy a newspaper which will then cast all of their activities in a good light.

There is no visible solution to this situation. Each company faces very specific problems in its own particular field. The tobacco industry, for instance, has big problems with corruption in customs processes, on the national border. Every second pack of cigarettes in Lithuania is smuggled. Companies in the construction industry are concerned about corruption in public procurement, we are told that if a company has no relatives or acquaintances in government, it is hard to win a competition. Each business is focused on its own problems, and they don’t see the forest for the trees.

We surveyed 1,000 high school students, more than 60% of them said that giving a bribe is a reasonable way to resolve a problem. If we do not get all sectors to work together, if we continue not to see the forest for the trees, then we will never understand what to do in one individual area.

This is the second time that I am attending a conference at which

businesspeople come together to talk about corruption. The first was a conference that was organised by the Business Forum and *Mažeikiu Nafta*, and it brought together 80 companies from Lithuania. There was one article in the press – what a pity! Then the Confederation of Lithuanian Industrialists came together to talk about the same issue. It appears that it is hard to publish information about these things, because businesspeople are afraid that later the newspapers will dig up information to show that they have behaved unethically. We are sniffing around each other at this time, and I hope and believe that this will eventually lead to better understanding, to a network of concerned people. What are your understandings and conclusions as we bring this conference to an end?

#### **Unknown man**

Over the last few days, I have come to understand that the fight against corruption is a very difficult task. It is necessary to address very fundamental questions about socio-economic development, about the attitudes of young people. I agree that it is important to cover these questions in the educational system. At the same time, however, there is a danger here – by focusing on the fundamental questions we avoid doing something in the here and now. I think that the Integrity Pact which was shown to us yesterday sets a good example, and I really hope that it will receive positive media coverage, that the information will be widespread. It would be interesting to hear from business leaders – to what extent are they interested in this?

#### **Monty Åkesson, Ernst & Young**

I’m thinking about the future, I’d like to know what will happen tomorrow in the Nordic-Baltic dialogue about corruption. It so happens that I think that this has been a successful conference, and we’ll see the results in two or three years’ time. It’s important for us to continue, and I believe that large investors in all three Baltic States are a pillar of competence in those three countries. We heard from different companies – they need a system to eliminate the risk of bribery, they have to implement such systems themselves. I understood that *TI Latvia* and *TI Lithuania* co-operate and exchange experiences. Do you work closely with the Nordic chapters and with big companies? One idea is to bring in large investors and to find enthusiasts among managing directors who are willing to work for you. This could provide good examples which we would otherwise miss.

**Jens Berthelsen,**  
**Transparency International**  
**Denmark**

If we look at the map, then we see that business is discussing corruption mostly in the context of political developments. No one knows what will happen with business in the Baltic countries if political developments are financed by businesses. One problem that I see is that governments aren't talking about corruption at the pan-Baltic scale, and *TI Denmark* is thinking about raising this issue at the Nordic Council, particularly now that the Baltic countries have been included in the Baltic Council.

The Nordic Council, however, is undergoing reorganisation. There will be two forums to raise these issues – a meeting of ministers of business, as well as a meeting of ministers of justice. Corruption has never been on the Nordic Council's agenda. I don't think that it will be a problem for the Scandinavian countries to raise this issue. We hope for the support of the governments of Sweden and Norway to launch this discussion. The Nordic Council is looking for a new brief – corruption could be a good issue to discuss.

If ministers discuss this issue at the Nordic Council, then it also has to be said that there are many institutions which are related to the Council. The civil society can be brought into this process, as it has been in the area of consumer issues. I hope that we will get the support of the Nordic Council.

**Unknown man**

I wish to pursue the same track as Jens Berthelsen. I think that this is a very interesting subject that could be discussed in the Nordic-Baltic context. I see problems which are obvious, you have thought about these yourselves, and these are matters which could be brought up by the Scandinavians in relation to the Baltic countries.

We talked about the EU's structural funds, and this could be a place to start if there is misuse of the funds which are, after all, financed by all of the EU's member states. It would only be natural for businesspeople to bring up the issue of how extensive are problems with corruption in the countries around the Baltic Sea. Discussion could be organised, action could follow.

**Jens Berthelsen,**  
**Transparency International**  
**Denmark**

There seems to be a separation of labour if we look at investments and business relations. Estonia is pretty close

to Finland, Latvia – to Sweden, and Lithuania – to Denmark. The smart way to deal with these issues would be bilaterally. In Latvia, for instance, we can work with the Swedish Embassy and bring in Swedish businesspeople to talk about what we can do together. Lithuania and Estonia could follow the same pattern. My experience is that Nordic embassies are quite generous when it comes to TI chapters, but that doesn't mean that they couldn't do even more.

**Inese Voika,**  
**Transparency International Latvia**

I have a question for the businesspeople that are here. Would you be interested in continuing to look at ways of becoming involved in the promotion of integrity among Baltic businesses?

**Harry Veiko Piela,**  
**Sybase Finland**  
Maybe.

**Arvid Halvorsen,**  
**Norsk Hydro**

We don't do much business in the Baltic States, but I'm here to share experiences and good practices in support of TI, because we believe in these things. I must admit that we have to determine priorities in our business, we must fight against corruption in some of the challenging countries in which we are present.

**Valdas Laurinavičius,**  
**AB Mžeikiu Nafta**

We are very interested, yes. We believe in sharing knowledge and experiences, in learning, in teaching, in spreading this network. We want to create an environment at our company in which everyone feels good.

**Stefan Johansson,**  
**Ericsson**

One reason to avoid bribery is never to end up stuck in a corner. You are trying to push me into a corner right now, but my presence here is an illustration of my interest.

**Miklos Marschall,**  
**Transparency International**  
**Secretariat**

I am very glad that Inese came up with this question, because I think that this meeting was all about bringing TI and the corporate sector closer together. A good test of any meeting is whether it generates any collective action. I understand that it will take some time to see the results, but we generated a few

ideas and came closer to the belief that we need one another. The TI movement desperately needs to know about your real life experience. You know much more about these things than we do. TI can help you, too. You're frustrated about having to pay bribes, you'd prefer to pay taxes. TI can mobilise public opinion, we have access to the global and the regional media to drum up support for various issues. I hope that this meeting was a good contribution toward the building up of an alliance. We need to work with big companies, with the umbrella organisations of companies. There are a few issues which we all have in common, the EU's structural funds are one such issue. I think that TI, as an independent NGO, can perform a good role in promoting these initiatives.

We can become allies in doing a better job vis-à-vis corrupt and populist politicians. I believe that there is still a lot of populism in politics in many of the transition countries. In some strange ways, the issue of corruption has contributed to this kind of degradation of politics. Good citizens, businesspeople and people from the civil society can work together in sending tough messages to politicians about things which are not OK, about the need to reform the health care sector or agricultural subsidies because they are not sustainable the way things are going now.

Thank you all for taking the time to participate. I believe that co-operation always starts with talking and getting to know one another. Many people said over the last two days that it's necessary to build up trust. I think the more we talk, the better we will know each other, and then we're going to be able to trust one another.

**Antra Zālīte,**  
**SAP**

Gabriele Hartmann and I agreed that we are ready to continue this co-operation, focusing more on specific industries and countries. We are prepared to continue this dialogue between businesses and TI. We will try to move forward step by step, country by country, with small and viable actions to achieve visible results.

**Jens Berthelsen,**  
**Transparency International**  
**Denmark**

I would like to thank *TI Latvia* for its work in arranging this conference in a very short period of time. The conference is a major success, given the number of participants who attended. I know that our discussions were very fruitful. ●



# List of participants

<b>Nr.</b>	<b>Title Name</b>	<b>Surname</b>	<b>Position</b>	<b>Organization / company</b>
1	Mr. Monty	Åkesson	Consultant, former Chairman of the Foreign Investors Council in Latvia	<i>Ernst &amp; Young</i>
2	Mr. Douglas	Balchin	Vice chairperson	Foreign Investors Council in Latvia
3	Mr. Örjan	Berner	Chairperson	TI Sweden
4	Mr. Jens	Berthelsen	Vice Chairperson	TI Denmark
5	Ms. Sanita	Bikseniece	PR, Marketing manager	<i>Ramboll Latvia</i>
6	Mr. Gerd	Bommer	Commercial attache	Embassy of Austria in Riga
7	Mr. Jeremyn	Brooks	Director	<i>Transparency International</i>
8	Mr. Uldis	Cērps	Chairperson	Finance and Capital Monitoring Committee
9	Mr. Gintautas	Dirgela	Corporate Affairs Director	JT International Baltics
10	Mr. James	Farrar	Vice President Corporate Citizenship	<i>SAP</i>
11	Mr. Arvid	Halvorsen	Senior Vice President, Corporate Social Responsibility	<i>Norsk HYDRO</i>
12	Ms. Gabriele	Hartmann	Manager Corporate Citizenship	<i>SAP</i>
13	Mr. Rolf	Jaeger	Social attache	Embassy of Germany in Riga
14	Mr. Stefan	Johansson	Vice President, Baltic & Nordic	<i>Ericsson</i>
15	Mr. Rytis	Juozapavičius	Executive Director	TI Lithuania
16	Ms. Jovita	Kačerauskienė	Executive Office Director	<i>AB Mažeikiu Nafta</i>
17	Mr. Tatu	Karkkila	Internal Audit Director	<i>Rimi Baltic Group</i>
18	Mr. Gunilla	Karlsson	Counsellor	Embassy of Sweden in Riga
19	Mr. Giedrius	Karsokas	Head of Communications	<i>AB Mažeikiu Nafta</i>
20	Mr. Theis	Klauberg	Attorney	<i>BNT legal</i>
21	Mrs. Nina	Kukuškina	Board member	<i>Aon Latvia</i>
22	Dr. Virginijus	Kundrotas	President	ISM University of Management and Economics
23	Ms. Ingrīda	Lāce	Director of Corporate Communications	<i>Latvenergo</i>
24	Mr. Agu	Laius	Executive Director	TI Estonia
25	Mr. Valdas	Laurinavičius	Head of Internal Audit Department	<i>AB Mažeikiu Nafta</i>

26	Ms. Solvita Masule	Lawyer	<i>Ventspils nafta</i>
27	Mr. Marschall Miklos	Regional Director for Europe and Central Asia	TI Secretariat
28	Mr. Andres Paalzow	Rector	Stockholm School of Economics in Riga
29	Mr. Harry Veikko Piela	Managing director	<i>Sybase Finland</i>
30	Ms. Jolanta Piliponyte	Project Director	TI Lithuania
31	Mr. Roberts Putnis	Chairperson	TI Latvia
32	Ms. Baiba Rubess	Executive Director	<i>Statoil Latvija</i>
33	Dr. Holger Ruthe	Head of the Economic Section	Embassy of Germany in Riga
34	Ms. Daiga Rutka	Project director	TI Latvia
35	Ms. Viktorija Sakalauskiene	Deputy Head of Internal Investigation Service	Customs Departament under The Ministry of Finance of the Lithuanian Republic
36	Ms. Inta Saprovska	Director	<i>Berlin-Chemie/Mencirini Baltic</i>
37	Ms. Dagmar Schröder	Executive Director	TI Germany
38	Mr. Edgars Šins	Managing Director	<i>Latio Real Estate</i>
39	Ms. Gro Skaaren-Fystro	Special Adviser	TI Norway
40	Mr. Alexander Skurla	Head of the Economic and Commercial Section	Embassy of the Slovak Republic
41	Ms. Rūta Skyrienė	Executive Director	<i>Investors Forum</i>
42	Mr. Andris Spūlis	C.E.O.	<i>Komin</i>
43	Ms. Kate Sturgess	Programme Coordinator	TI Secretariat
44	Mr. Tarmu Tammerk	Co – chairperson	TI Estonia
45	Mr. Uldis Upenieks	Head of Client Monitoring Department	<i>Parex Banka</i>
46	Mr. Ken-Marti Vaher	Member of Parliament, former Minister of Justice	Estonian Parliament
47	Ms. Krista Vainola	Tallinn Internal Controller	Tallinn City Office
48	Mr. Agris Vārpiņš	Development director	TI Latvia
49	Mr. Jānis Vēvers	Development director	<i>Latvijas Dzelzceļš</i>
50	Mr. Alvis Vilks	Deputy Chairperson	Corruption Prevention and Combating Bureau of the Republic of Latvia
51	Ms. Inese Voika	Member of the board	TI Latvia
52	Dr. Atis Zakatistovs	Business ethics professor and CSR expert	Riga School of Business
53	Ms. Antra Zālīte	Country Manager	<i>SAP Österreich GmbH</i> Representative office

# Business Principles for Countering Bribery

## An initiative of *Transparency International* and *Social Accountability International*

### Foreword

*Transparency International* and *Social Accountability International* are pleased to have facilitated the initiative for the Business Principles for Countering Bribery. These were developed in a partnership project undertaken with a Steering Committee drawn from companies, academia, trade unions and other non-governmental bodies.

We believe that the timing is right for the introduction of the Business Principles. Companies must now take account of increasingly stringent domestic and international regulatory frameworks. There is growing corporate awareness of the risks posed by bribery, particularly in the light of recent scandals, and the public is expecting greater accountability and probity from the corporate sector.

For the first time, there is a practical tool to which companies can look for a comprehensive reference to good practice to counter bribery. We hope that the Business Principles will become an essential tool for businesses and we encourage companies to consider using them as a starting point for developing their own anti-bribery systems or as a benchmark.

The Business Principles have been pitched at a good practice level to attract the widest possible acceptance. The Business Principles reflect the views of the Steering Committee and do not necessarily reflect the policies of its individual members on particular topics. As a “living document”, the Business Principles are expected to evolve over time to reflect changes in anti-bribery practice as well as the lessons learned from their use and application by business.

We hope that companies will find the Business Principles to be of value and that those using them will contribute to their further development.

**Jermyn Brooks,**  
**Executive Director**  
*Transparency International*

**Eileen Kohl Kaufman,**  
**Executive Director**  
*Social Accountability International*



**An initiative of Transparency  
International and Social Accountability  
International**

**June 2003**

**Introduction**

The Business Principles for Countering Bribery (the "Business Principles") have been developed by a group of private sector interests, non-governmental organisations and trade unions as a tool to assist enterprises to develop effective approaches to countering bribery<sup>1</sup> in all of their activities.

The Business Principles also give practical effect to recent initiatives such as the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the ICC Rules of Conduct to Combat Extortion and Bribery and the anti-bribery provisions of the revised OECD Guidelines for Multinationals.

The Business Principles have been designed for use by large, medium and small enterprises. They apply to bribery of public officials and to private-to-private

transactions. The purpose of the document is to provide practical guidance for countering bribery, creating a level playing field and providing a long-term business advantage.

**The Business Principles**

- **The enterprise shall prohibit bribery in any form whether direct or indirect**
- **The enterprise shall commit to implementation of a Programme to counter bribery**

These Business Principles are based on a commitment to fundamental values of integrity, transparency and accountability. Enterprises shall aim to create and maintain a trust-based and inclusive internal culture in which bribery is not tolerated.

The Programme is the entirety of an enterprise's anti-bribery efforts including values, policies, processes, training and guidance.

**Aims**

**The aims of the Business Principles are to:**

Provide a framework for good business practices and risk management strategies for countering bribery.

Assist enterprises to:

- eliminate bribery
- demonstrate their commitment to countering bribery
- make a positive contribution to improving business standards of integrity, transparency and accountability wherever they operate.

**Development of a Programme for Countering Bribery**

An enterprise should develop a Programme reflecting its size, business sector, potential risks and locations of operation, which should, clearly and in reasonable detail, articulate values, policies and procedures to be used to prevent bribery from occurring in all activities under its effective control.

The Programme should be consistent with all laws relevant to countering bribery in all the jurisdictions in which the enterprise operates, particularly laws



that are directly relevant to specific business practices.

The enterprise should develop the Programme in consultation with employees, trade unions or other employee representative bodies.

The enterprise should ensure that it is informed of all matters material to the effective development of the Programme by communicating with relevant interested parties.

### **Scope of the Programme**

In developing its Programme for countering bribery, an enterprise should analyse which specific areas pose the greatest risks from bribery.

The Programme should address the most prevalent forms of bribery relevant to the enterprise but at a minimum should cover the following areas:

#### **Bribes**

The enterprise should prohibit the offer, gift, or acceptance of a bribe in any form, including kickbacks, on any portion of a contract payment, or the use of other routes or channels to provide improper benefits to customers, agents, contractors, suppliers or employees of any such party or government officials.

The enterprise should also prohibit an employee from arranging or accepting a bribe or kickback from customers, agents, contractors, suppliers, or employees of any such party or from government officials, for the employee's benefit or that of the employee's family, friends, associates or acquaintances.

#### **Political contributions**

The enterprise, its employees or agents should not make direct or indirect contributions to political parties, organisations or individuals engaged in politics, as a way of obtaining advantage in business transactions.

The enterprise should publicly disclose all its political contributions.

#### **Charitable contributions and sponsorships**

The enterprise should ensure that charitable contributions and sponsorships are not being used as a subterfuge for bribery.

The enterprise should publicly disclose all its charitable contributions or sponsorships.

#### **Facilitation payments**

Recognising that facilitation payments<sup>2</sup> are a form of bribery, the enterprise should work to identify and eliminate them.

#### **Gifts, hospitality and expenses**

The enterprise should prohibit the offer or receipt of gifts, hospitality or expenses whenever such arrangements could affect the outcome of business transactions and are not reasonable and bona fide expenditures.

#### **Programme Implementation Requirements**

The following section sets out the requirements that enterprises should meet, at a minimum, when implementing the Programme.

#### **Organisation and responsibilities**

The Board of Directors or equivalent body should base their policy on the Business Principles and provide leadership, resources and active support for management's implementation of the Programme.

The Chief Executive Officer is responsible for ensuring that the Programme is carried out consistently with clear lines of authority.

The Board of Directors, Chief Executive Officer and senior management should demonstrate visible and active commitment to the implementation of the Business Principles.

#### **Business relationships**

The enterprise should apply its Programme in its dealings with subsidiaries, joint venture partners, agents, contractors and other third parties with whom it has business relationships.

##### Subsidiaries and joint ventures

The enterprise should conduct due diligence before entering into a joint venture.

The enterprise should ensure that subsidiaries and joint ventures over which it maintains effective control adopt its Programme. Where an enterprise does not have effective control it should make known its Programme and use its best efforts to monitor that the conduct of such subsidiaries and joint ventures is consistent with the Business Principles.

##### Agents

The enterprise should not channel improper payments through an agent.

The enterprise should undertake due diligence before appointing an agent.

Compensation paid to agents should be appropriate and justifiable remuneration for legitimate services rendered.

The relationship should be documented.

The agent should contractually agree to comply with the enterprise's Programme.

The enterprise should monitor the conduct of its agents and should have a right of termination in the event that they pay bribes.

##### Contractors and suppliers

The enterprise should conduct its procurement practices in a fair and transparent manner.

The enterprise should undertake due diligence in evaluating major prospective contractors and suppliers to ensure that they have effective anti-bribery policies.

The enterprise should make known its anti-bribery policies to contractors and suppliers. It should monitor the conduct of major contractors and suppliers and should have a right of termination in the event that they pay bribes.

The enterprise should avoid dealing with prospective contractors and suppliers known to be paying bribes.

#### **Human resources**

Recruitment, promotion, training, performance evaluation and recognition should reflect the enterprise's commitment to the Programme.

The human resources policies and practices relevant to the Programme should be developed and undertaken in consultation with employees, trade unions or other employee representative bodies as appropriate.

The enterprise should make it clear that no employee will suffer demotion, penalty, or other adverse consequences for refusing to pay bribes even if it may result in the enterprise losing business.

The enterprise should apply appropriate sanctions for violations of its Programme.

#### **Training**

Managers, employees and agents should receive specific training on the Programme.

Where appropriate, contractors and suppliers should receive training on the Programme.

#### **Raising concerns and seeking guidance**

To be effective, the Programme should rely on employees and others to raise concerns and violations as early as possible. To this end, the enterprise should provide secure and accessible channels through which employees and others should feel able to raise concerns and report violations ("whistle-blowing") in confidence and without risk of reprisal.

These channels should also be available for employees and others to seek advice or suggest improvements to the Programme. To support this process, the enterprise should provide guidance to employees and others with respect to the interpretation of the Programme in individual cases.

### Communication

The enterprise should establish effective internal and external communication of the Programme.

The enterprise should, on request, publicly disclose the management systems it employs in countering bribery.

The enterprise should be open to receiving communications from relevant interested parties with respect to the Programme.

### Internal controls and audit

The enterprise should maintain accurate books and records, available for inspection, which properly and fairly document all financial transactions. The enterprise should not maintain off-the-books accounts.

The enterprise should establish feedback mechanisms and other internal processes supporting the continuous improvement of the Programme.

The enterprise should subject the internal control systems, in particular the accounting and record keeping practices, to regular audits to provide assurance that they are effective in countering bribery.

### Monitoring and review

Senior management of the enterprise should monitor the Programme and periodically review the Programme's suitability, adequacy and effectiveness and implement improvements as appropriate. They should periodically report to the Audit Committee or the Board the results of the Programme review.

The Audit Committee or the Board should make an independent assessment of the adequacy of the Programme and disclose its findings in the Annual Report to shareholders.

### Transparency International

*Transparency International* is the leading international organisation devoted to curbing bribery. It was founded in 1993 with the mission to build coalitions of civil society, governments and the private sector to join in the fight against corruption. TI's work is based on the belief that corruption is a major threat to human rights, development and international trade, and that containing corruption to manageable levels calls for the creation of

a broad coalition. TI views engagement with the private sector as key to its mission.

*Transparency International*  
Otto-Suhr-Allee 97/99  
10585 Berlin  
Germany  
+ 49 30 343 8200  
www.transparency.org

### Social Accountability International

*Social Accountability International*, a non-governmental, non-profit organisation founded in 1997, seeks to improve workplaces and communities around the world by developing and promoting voluntary standards combined with independent verification and public reporting. To operate such social accountability systems, SAI follows an international, consensus-based approach that actively engages business, workers and trade unions, government, socially responsible investors, and non-governmental organisations.

*Social Accountability International*  
220 East 23<sup>rd</sup> Street Suite 605  
New York, NY 10010  
USA  
+1 212 684 1414  
www.sa-intl.org

### Credits

The Steering Committee that produced this document, comprised the following companies and organisations:

- *Accountability*
- *The Conference Board*
- *Ethos*
- European Bank for Reconstruction and Development
- *General Electric Company*
- Institute for Business Ethics, Universiteit Nyenrode
- *Norsk HYDRO ASA*
- *Pricewaterhouse Coopers*
- *Responsible Business Initiative*
- *Rio Tinto plc*
- *Shell International Ltd*
- *SGS Société Générale de Surveillance S.A.*
- *Social Accountability International*
- *Tata Sons Limited*
- Trade Union Advisory Committee to the OECD
- *Transparency International*

### Chairman of the Steering Committee:

Laurence Cockcroft, *Transparency International*

### Observer:

International Chamber of Commerce

The Steering Committee is grateful to the companies and organisations that submitted comments on the Consultation Draft:

- BP plc
- Cambridge University Press
- *The Caux Round Table*
- *Crédit Mutuel*
- *economiesuisse* – Swiss Business Federation
- *Ford of Europe GMBH*
- *France Télécom*
- *ISIS Asset Management plc* (formerly *Friends Ivory & Sime*)
- *General Motors Corp.*
- *GlaxoSmithKline plc*
- International Federation of Consulting Engineers (FIDIC)
- *Groupe Renault*
- *Société Générale*
- *Suez*
- *UBS AG*
- Christine Parker, Professor of Law, University of New South Wales

The companies that generously allowed the Steering Committee to undertake Field Tests of the Business Principles were:

- BP *Exploration* (Caspian Sea) Limited, Azerbaijan
- *Sika AG*, Switzerland
- *The Tata Iron and Steel Company Limited*, India

### Appreciation

Appreciation is expressed to the organisations that provided financial and in-kind support to make possible the development of the Business Principles for Countering Bribery.

The corporate members of the Steering Committee  
The Center for International Private Enterprise  
The Open Society Institute  
Corporate Culture plc for pro bono design services.

© 2003 *Transparency International* and *Social Accountability International*

<sup>1</sup> Bribery: An offer or receipt of any gift, loan, fee, reward or other advantage to or from any person as an inducement to do something which is dishonest, illegal or a breach of trust, in the conduct of the enterprise's business.

<sup>2</sup> Facilitation payments: Also called "facilitating", "speed" or "grease" payments, these are small payments made to secure or expedite the performance of a routine or necessary action to which the payer of the facilitation payment has legal or other entitlement.